



**Bayfront Place - Erie, PA
Highest and Best Use Assessment**

SUBMITTED TO
Erie County Convention Center Authority

SUBMITTED BY
C.H. Johnson Consulting, Incorporated

August 2017



**JOHNSON
CONSULTING**

Experts in Convention, Hospitality,
Sport and Real Estate Consulting.

TABLE OF CONTENTS

SECTION 1

TRANSMITTAL LETTER

SECTION 2

INTRODUCTION AND EXECUTIVE SUMMARY1

SECTION 3

ECONOMIC AND DEMOGRAPHIC OVERVIEW.....9

SECTION 4

REAL ESTATE MARKET TRENDS 23

SECTION 5

DEVELOPMENT PROGRAM RECOMMENDATIONS 37

SECTION 6

FEASIBILITY ANALYSIS 44

SECTION 1
TRANSMITTAL LETTER

August 15, 2017

Mr. John A. "Casey" Wells
Executive Director
Erie County Convention Center Authority
809 French Street
Erie, PA 16501
casey@erieevents.com

Re: Bayfront Place Highest and Best Use Assessment

Dear Casey:

Johnson Consulting is pleased to submit this report regarding the highest and best use of Bayfront Place on Erie's waterfront, adjacent to the Bayfront Convention Center. Pursuant to our engagement, this report reviews and analyzes the economic and demographic characteristics of the local market, analyzes relevant statistics in the local real estate market, provides recommendations regarding the most appropriate mix of land uses on the subject site, and calculates the feasibility and potential return on investment of the proposed project.

Johnson Consulting has no responsibility to update this report for events and circumstances occurring after the date of this report. The findings presented herein reflect analyses of primary and secondary sources of information. Johnson Consulting used sources deemed to be reliable, but cannot guarantee their accuracy. Moreover, some of the estimates and analyses presented in this study are based on trends and assumptions, which can result in differences between the projected results and the actual results. Because events and circumstances frequently do not occur as expected, those differences may be material. This report is intended for the clients' internal use and cannot be used for project underwriting purposes without Johnson Consulting's written consent.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely,

C.H. Johnson Consulting, Inc.

C.H. JOHNSON CONSULTING, INC.

SECTION 2

INTRODUCTION AND EXECUTIVE SUMMARY

INTRODUCTION

Johnson Consulting was retained by the Erie County Convention Center Authority (ECCCA) to perform a highest and best use assessment of 16-acres of undeveloped land adjacent to the Bayfront Convention Center (BCC) and known as 'Bayfront Place'. The underdeveloped parcels include the former 12.5-acre GAF Building Materials Corporation site and 3.5-acres adjacent to the BCC. Existing development on the broader 29-acre site include the BCC, the 200-room Sheraton, the 192-room Courtyard Erie Bayfront Hotel and parking deck, which includes 8,600 SF of wrapped commercial space, and a 1,100 foot walkway around the perimeter of the site that provides access to the waterfront. The site presents a unique opportunity to transform part of Erie's waterfront into a vibrant, year-round destination for both residents and tourists alike. The following figure highlights the location of the subject site in the context of downtown Erie and the waterfront, and showing the existing developments on the broader site.

Figure 2 - 1



Source: Kidder Wachter Architecture & Design

ERIE DOWNTOWN MASTERPLAN

The eastern portion of the subject site is located within the Bayfront District of Downtown Erie, as defined by the Erie Downtown Partnership's (EDP) Erie Downtown Master Plan. The vision for Downtown Erie is a “thriving center of civic, government, finance, arts and culture, history, retail, health care, education, entrepreneurship, dining and entertainment for the Erie region...an exciting place to live, a viable place to work or do business, and a vibrant and enticing place to visit.” To achieve this vision, the Master Plan identifies 6 goals and associated objectives and strategies, as follows:

- **Goal 1:** Recognize and promote four districts in Downtown Erie (Bayfront, where the subject site is located, Perry Square, Renaissance, and Union Square) to help support social and economic synergy. Each district is a unique subarea of downtown, with different character and functions, as well as unique design elements, land use concentrations, clusters of business activity, and target market.

The **Bayfront District** “focuses on water-related and medical facilities, and providing services to water enthusiasts, conventioners, medical patients, and their families. Visual and physical connections between the Bayfront (north of the Parkway and incorporating the subject site) and the balance of the district are high priorities for all future development plans, which should include pedestrian and bicycle connections over the Parkway.” From a design perspective, the Master Plan specifies that new housing should be on upper floors of mixed-use buildings, all buildings should be low-rise, surface parking should be minimized, and public retail space and landscaped areas should be provided on ground and top levels of parking garages.

- **Goal 2:** Improve the overall physical environment of Downtown Erie.
- **Goal 3:** Aggressively pursue economic development opportunities for downtown including retail, office, technology, arts and cultural, and tourism business, coordinating closely with economic development partners.
- **Goal 4:** Increase market-rate housing in Downtown Erie.
- **Goal 5:** Improve transportation, circulation, and connectivity throughout downtown.
- **Goal 6:** Design and implement an aggressive promotional campaign for Downtown Erie's businesses, partners, programs, and events.

STUDY OBJECTIVES

The purpose of this analysis is to determine the highest and best use of the subject site and answer the following questions:

1. What is the most appropriate mix of uses for the subject site?
2. What are the phasing priorities, if any?
3. What are the economies associated with each project element?



METHODOLOGY

In order to complete the analysis required for this project, Johnson Consulting performed the following tasks:

1. Toured the site and surrounding area, as well as downtown Erie and other major concentrations of activity.
2. Examined and projected regional economic and demographic trends that may influence demand for retail, office, and residential uses.
3. Analyzed demand and supply conditions in the retail, office, and residential markets in Erie and surrounding communities.
4. Provided independent recommendations regarding the most appropriate mix of market-supportable land uses on the subject site and compared our market-driven recommendations to preliminary concepts prepared by Kidder Wachter.
5. Projected the market performance of each project element over a 15-year period.

EXECUTIVE SUMMARY

Our assessment of Bayfront Place with respect to development potential, as presented in the balance of this study, is summarized as follows:

- Bayfront Place presents a unique opportunity to develop an underutilized site on the waterfront, in close proximity to the BCC and adjacent hotel properties, as well as Downtown Erie, with the specific intention to enhance the attractiveness of Erie as a destination to live, work and play.
- Erie is characterized by a small but established population. The proposed development will adhere to specific goals of the Erie Downtown Master Plan related to improving the overall physical environment, pursuing economic development opportunities, and increasing the supply of market-rate housing. This will help to grow the resident population of the local area.
- Overall, Erie's real estate market has remained relatively stable over recent years but is showing signs of slight increased momentum with rental rates reaching their highest levels in 2016 across the retail, office and residential multi-family sectors. In many respects, this can be attributed to the shortage of new supply and unmet demand for new product in the downtown area.
- Any new retail uses on the subject site will be supported by demand from onsite workers and residents, residents and workers within the proximate downtown area, and depending on the types of retail offerings, the broader area as well, given the attractive setting of the proposed Bayfront Place project.
- New office construction is limited to purpose-built space, with very little speculative building occurring in the marketplace. There may be potential for new office space on the subject site to attract larger private and institutional tenants, requiring additional space to accommodate expansion or desiring



newer premises, however pre-commitment should be sought over speculative build. Nationally, as well as locally, there is increasing demand for smaller live-work spaces, temporary/ shared offices, and coworking space, such as WeWork. Given the attractive setting of the proposed development, these smaller scale office spaces also have potential to capture unmet market demand.

- The waterfront views commanded by the subject site, as well as the attractiveness of the proposed landscaping and onsite amenities, create potential for a high quality, market-rate residential product. Established and attractive surrounding neighborhoods, particularly to the southwest of the subject site, will also help to support higher prices and rents. A mix of for-sale condos, and a small number of rental apartments, is recommended. A condo product will create more certainty for prospective tenants of ground floor retail spaces. Sources of demand will include young relocating professionals seeking to purchase their first home in proximity to their place of employment, older households seeking to downsize and relocate to an urban area with amenities, and a mix of middle and upper income households. Given the nexus of Erie between Buffalo, Pittsburgh and Cleveland, former residents of Erie that now live in these markets could potentially return to Erie permanently or express demand for second homes on the waterfront.
- To the east of Bayfront Place, along the waterfront, the proposed Harbor Place development includes a mix of retail, office and residential uses on a slightly smaller parcel. If Harbor Place proceeds as anticipated, commencing imminently and built-out in full, it is anticipated that it will compete with Bayfront Place. While it is our considered opinion that there is capacity in the market for both projects, if Harbor Place proceeds, absorption of new space will be slower and this will necessitate careful consideration of timing of phases for Bayfront Place.
- The following table summarizes our recommended development program and associated phasing. Additional detail is provided in Sections 5 and 6 of this report.

Table 2 - 1

Bayfront Place - Erie, PA Proposed Development Program in SF			
	Phase I	Phase II	Total Build-Out
Year Open	Year 1	Year 5	
Land (acres)	10	6	16
Gross Size (SF)			
Retail	67,838	36,347	104,185
Office	76,292	-	76,292
For-Sale Condos	264,600	162,000	426,600
Rental Apartments*	61,050	55,500	116,550
Parking**	175,000	75,000	250,000
Total Development Area (SF)			973,627
Floor Area Ratio (FAR)			1.40
<i>* Assumes Buildings J and P are rental apartments (42 units total); 85 percent efficiency ratio.</i>			
<i>** Excludes existing 500 onsite parking spaces</i>			
<i>Source: Johnson Consulting</i>			

- The following table summarizes the projected net operating income, by land use, over a 15-year period (assuming Year 1 is the first full year of operation of the project). It is anticipated that the ECCCA will act as land developer and sell an improved site(s). The analysis assumes ECCCA will not receive income from operations, so net operating income serves as the best indicator of the opportunity for, and feasibility of, a mixed-use development at Bayfront Place from a developer's perspective. Restated, the following table summarizes the level of income that a developer(s) could anticipate from the proposed project. It is noted that residential condos are excluded from the capital budget as those assets are sold and do not provide a steady stream of revenue and expenses. However, net profit from residential condos at Bayfront Place is included in the analysis. Additional detail is provided in Section 6 of this report.

Table 2 - 2

Bayfront Place - Erie, PA Summary of Projected Net Operating Income (\$000, inflated)				
Program Element	Year 1	Year 5	Year 10	Year 15
Retail	\$345	\$818	\$1,074	\$1,245
Office	(66)	567	657	762
Rental Apartments	173	424	534	618
Parking	537	982	1,081	1,177
Total	\$989	\$2,791	\$3,346	\$3,803
Profit from Condos*	\$1,773	\$1,466	\$0	\$0
Total incl. Profit from Condos	\$2,762	\$4,257	\$3,346	\$3,803

* Developer profit estimated at 15 percent of net sales income from condos

Source: Johnson Consulting

- The following table shows the preliminary estimated development costs for the proposed development. Additional detail is provided in Section 6 of this report.

Table 2 - 3

Bayfront Place - Erie, PA Proposed Development Program Estimated Cost (\$000)				
	Assumptions	Phase I	Phase II	Total Build-Out
Year Open		Year 1	Year 5	
Land (acres)		10	6	16
Land Basis	\$7,000			
Built Acres	6.40	4.0	2.4	6.4
Land Basis- Built Acres	\$1,094			
Retail	\$120 /SF	\$8,636	\$5,208	\$13,844
TI Allowance	\$70 /SF	\$4,749	\$2,544	\$7,293
Office	\$135 /SF	\$10,927	\$0	\$10,927
TI Allowance	\$70 /SF	\$5,340	\$0	\$5,340
For-Sale Condos	\$187,500 /Unit	\$19,494	\$13,433	\$32,927
Rental Apartments	\$126,000 /Unit	\$2,941	\$3,009	\$5,950
Parking	\$30,000 /Space	\$22,279	\$10,746	\$33,025
Subtotal		\$74,366	\$34,941	\$109,307
A&E Fees/ Ancillary Construction Costs	9%	\$6,693	\$3,145	\$9,838
Total		\$81,059	\$38,086	\$119,144
Soft Costs/ GC's/ Fees/ Insurance/ Contingency	20%	\$16,212	\$7,617	\$23,829
Total		\$97,271	\$45,703	\$142,973
	Total GSF	973,627		\$146.85
Total Excluding For Sale Condos		\$71,772	\$28,132	\$99,905

Source: Johnson Consulting

- The following table shows the estimated Return on Assets (ROA). Additional detail is provided in Section 6 of this report. In this case, given the desire of the ECCCA to understand the opportunity for the proposed Bayfront Place development and to also to estimate the value of the land equity, the ROA is considered to be a more appropriate measure than the more typical Internal Rate of Return (IRR). This is because the various sources of equity that the developer(s) may bring to the project ultimately does not affect the value of the project to the ECCCA.

Table 2 - 4

Bayfront Place - Erie, PA Cumulative Return on Assets Estimate (\$000)				
	Year 1	Year 5	Year 10	Year 15
Land (acres)	10.0	16.0	16.0	16.0
Built/ Developed Land (acres) (1)	4.0	6.4	6.4	6.4
For Rent Program Elements				
Built/ Developed Land (acres) (2)	2.2	3.6	3.6	3.6
Value of Land (3)	\$1,686	\$2,697	\$2,697	\$2,697
Development Cost (4)	71,772	99,905	99,905	99,905
Total Investment	\$73,458	\$102,601	\$102,601	\$102,601
Net Operating Cash Flow	989	2,791	3,346	3,803
Return on Assets - For Rent Program Elements	1.3%	2.7%	3.3%	3.7%
For Sale Program Elements				
Built/ Developed Land (acres) (5)	1.8	2.8	2.8	2.8
Value of Land	\$1,314	\$2,103	\$2,103	\$2,103
Total Investment**	\$1,316	\$2,106	\$2,106	\$2,106
Net Profit from Condos	\$1,773	\$1,466	\$0	\$0
Return on Assets - For Sale Program Elements	134.7%	69.6%	0.0%	0.0%
All Program Elements				
Built/ Developed Land (acres)	4.0	6.4	6.4	6.4
Value of Land	\$3,000	\$4,800	\$4,800	\$4,800
Development Cost	71,772	99,905	99,905	99,905
Total Investment	\$74,772	\$104,705	\$104,705	\$104,705
Net Operating Cash Flow	2,762	4,257	3,346	3,803
Return on Assets	3.7%	4.1%	3.2%	3.6%

1) Assumes program elements will cover 40 percent of total site

2) For rent program elements are assumed to account for 56 percent of acreage, based upon program SF and including all parking

3) Assumes average sale price of \$750,000 per acre

4) Includes A&E Fees/ Ancillary Construction Costs and Soft Costs/ GC's/ Fees/ Insurance/ Contingency; No allowance for Site Improvements

5) For sale program elements are assumed to account for 44 percent of acreage, based upon program SF; Assumes land is sold and assembled prior to development of condos in Phases 1 and 2

Source: Johnson Consulting



It is noted that, in the interest of remaining conservative, the return analysis assumes private sector development, however it is recognized that the ECCCA may issue bonds to fund the project. Indeed, the ECCCA may have a number of advantages over a private sector developer from a funding standpoint, particularly as it relates to lower cost of capital, access to grants, potential for New Market Tax Credits, and so on. At the time of completing our analysis, the deal structure still needs to be confirmed and clarified with the ECCCA.

SECTION 3

ECONOMIC AND DEMOGRAPHIC OVERVIEW

ECONOMIC AND DEMOGRAPHIC OVERVIEW

In order to analyze the market opportunity for various land uses at Bayfront Place, Johnson Consulting undertook a comprehensive review of market conditions in Erie and Erie County, relative to Commonwealth and national averages. The size and role of a marketplace, its civic leadership, proximity to other metropolitan areas, land use patterns, transportation concentrations, and amenities directly influence the type and scale of real estate development that can be supported within that particular market. The key objectives of our analysis were to identify structural factors, and strengths and weaknesses that may affect the market’s ongoing competitive opportunities and to gauge the level of support that exists for various land uses on the subject site.

MARKET OVERVIEW

Situated on Lake Erie, almost equidistant between Buffalo, NY (90 miles to the northeast) and Cleveland, OH (100 miles to the southwest), along the I-90 corridor, and approximately 130 miles to the north of Pittsburgh, PA, Erie is the 4th largest city in the Commonwealth of Pennsylvania and the county seat of Erie County. The following figure shows the location of Erie and Erie County.

Figure 3 - 1



Traditionally a hub for manufacturing activity, Erie’s economy is continuing to diversify with growing concentrations among the health care, higher education, technology, hospitality and tourism sectors. Although the resident population of Erie is relatively small, the local area attracts over 4 million visitors annually during the summer to Presque Isle State Park and other recreational activities associated with the Lake.

SUBJECT SITE

As described in the introduction to this report, the 29-acre subject site relates to the former GAF property adjacent to the Bayfront Convention Center, the Courtyard by Marriott hotel and the Sheraton hotel. The following figure shows the location of the subject site.

Figure 3 - 2

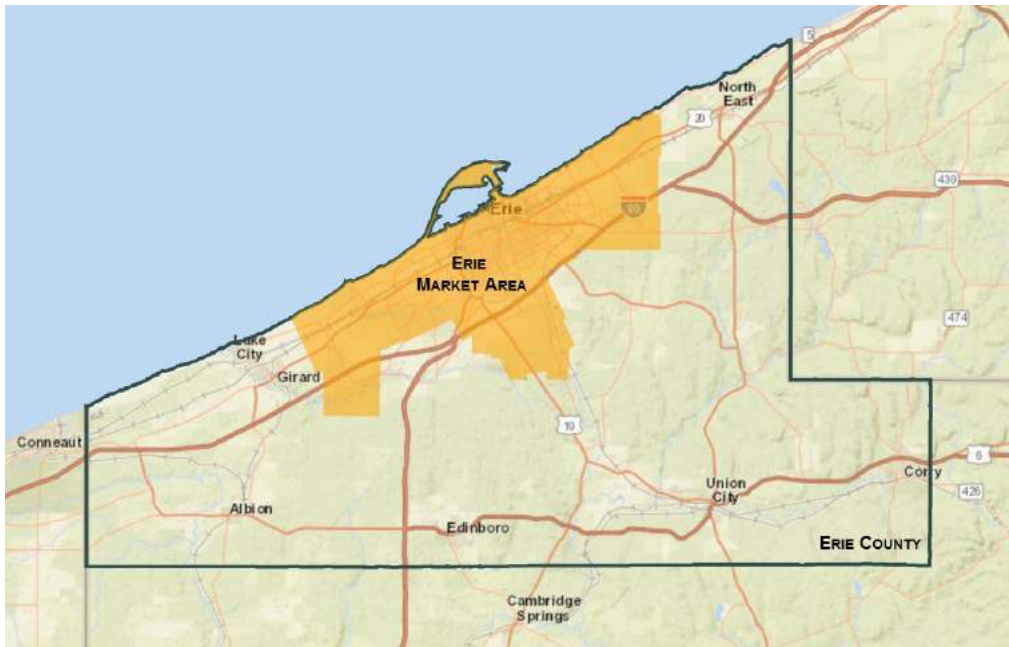


Source: Kidder Wachter Architecture & Design

ERIE MARKET AREA

For the purpose of this demographic and socioeconomic analysis, we have defined a market area that includes the City of Erie and the adjoining Townships of Millcreek, Fairview, Summit, Lawrence Park, Harborcreek, and the Borough of Wesleyville. The area is considered to best reflect the characteristics of prospective residents of any new residents at Bayfront Place. The following figure shows the geographic boundary of the defined Erie Market Area.

Figure 3 - 3



POPULATION

The 2016 resident population of the Erie Market Area was estimated to be 197,021 persons, representing 70.2 percent of the population of Erie County (280,732 persons). Between 2000 and 2016, the population of the Erie Market Area remained relatively stable, increasing slightly at an average annual rate of 0.1 percent, which was generally consistent with the population changes observed across Erie County (effectively no change per annum) and the Commonwealth (0.3 percent growth per annum), and lower than the modest growth recorded throughout the U.S. (0.9 percent per annum). Historic and recent population decline in the Erie Market Area and throughout the broader region is attributed to the decline of the manufacturing base. This reflects trends throughout Pennsylvania, where data from the Census Bureau indicates that, between 2010 and 2016, 44 of the Commonwealth's 67 counties (or 66.0 percent) experienced a population decline. Data from the Economic Research Institute at the Black School of Business (Penn State Behrend) indicates that recent and likely future stagnated growth can also be attributed to relatively slow wage growth in Erie, coupled with stronger employment and economic opportunities in competing locations.

Going forward, the population of the Market Area is projected to contract slightly to 196,158 persons by 2021, representing an average annual decrease of (0.1) percent over 2016 figures. It is noted that these projections do not account for any potential new employment opportunities or residential housing, such as at Bayfront Place, which may attract new residents to the area. Again, this is generally consistent with Erie County, which is forecast to record a population decline at (0.1) percent per annum and the Commonwealth, projected to

increase slightly by 0.3 per annum, as well as the U.S. (0.8 percent growth per annum). The following table shows population trends in the Erie Market Area, Erie County, Pennsylvania, and the U.S.

Table 3 - 1

Population - Erie, PA Market Area (2000-2021)				
	Erie Market Area	Erie County	Pennsylvania	U.S
2000	194,398	280,843	12,281,054	281,421,906
2010	196,563	280,566	12,702,379	308,745,538
2016	197,021	280,732	12,941,865	323,580,626
CAGR* (2000-2016)	0.1%	0.0%	0.3%	0.9%
2021 (Projected)	196,518	279,819	13,122,213	337,326,118
CAGR* (2016-2021)	-0.1%	-0.1%	0.3%	0.8%

* Compounded Annual Growth Rate
Source: Esri ArcGIS BAO, Johnson Consulting

AGE CHARACTERISTICS

In 2016, the median age of residents of the Erie Market Area was 38.9 years, which was generally consistent with Erie County (39.4 years), Pennsylvania (41.0 years) and the U.S. (38.0 years). While Erie's population is generally younger, reflecting the concentration of students, the broader market area has more established households, with older residents. Between 2010 and 2016, the median age of residents of the Market Area increased slightly at a rate of 2.1 percent. This was similar to the rates of growth recorded across the County (2.6 percent), Commonwealth (2.2 percent) and the U.S. (2.4 percent), reflecting the demographic shift towards an ageing population. Going forward, the median age of residents of the Market Area is projected to increase to 39.7 years by 2021, remaining in line with the forecast median age in Erie County (40.2 years), Pennsylvania (41.8 years) and the U.S. (38.7 years). The following table shows the median age characteristics of the Market Area, County, Commonwealth and U.S.

Table 3 - 2

Median Age - Erie, PA Market Area (2010-2021)				
	Erie Market Area	Erie County	Pennsylvania	U.S
2010	38.1	38.4	40.1	37.1
2016	38.9	39.4	41.0	38.0
Growth (2010-2016)	2.1%	2.6%	2.2%	2.4%
2021 (Projected)	39.7	40.2	41.8	38.7
Growth (2016-2021)	2.1%	2.0%	2.0%	1.8%

Source: Esri ArcGIS BAO, Johnson Consulting

EDUCATIONAL ATTAINMENT

The population of the Erie Market Area is reasonably well educated, with 37.1 percent of residents aged 25 years and older holding an Associate's degree or higher, compared to 35.3 percent of residents of Erie County, 37.6 percent of residents of Pennsylvania, and 38.6 percent of residents of the U.S. The following table provides a breakdown of educational attainment levels in the Market Area, County, Commonwealth, and U.S.

Table 3 - 3

Educational Attainment - Erie, PA Market Area (2016)								
	Erie Market Area		Erie County		Pennsylvania		U.S.	
	No.	%	No.	%	No.	%	No.	%
Less than High School	12,048	9.1%	8,073	8.9%	925,283	10.3%	27,906,938	12.8%
High School Graduate	44,354	33.5%	32,110	35.4%	2,892,633	32.2%	51,453,416	23.6%
GED/ Alternative Credential	5,561	4.2%	4,082	4.5%	350,350	3.9%	8,720,918	4.0%
Some College, No Degree	21,184	16.0%	14,422	15.9%	1,446,316	16.1%	45,566,797	20.9%
Associates Degree	10,857	8.2%	7,529	8.3%	718,666	8.0%	17,877,882	8.2%
Bachelor's Degree	24,097	18.2%	15,511	17.1%	1,608,016	17.9%	40,988,315	18.8%
Graduate/ Professional Degree	14,167	10.7%	8,980	9.9%	1,051,050	11.7%	25,290,662	11.6%
TOTAL	132,401		90,707		8,983,331		218,022,951	

Source: Esri ArcGIS BAO, Johnson Consulting

HOUSEHOLD INCOME

In 2016, the median household income in the Erie Market Area was estimated to be \$44,897 per annum, which was similar to the median income recorded across Erie County (\$46,365 per annum), but lower than those recorded across the Commonwealth (\$53,805) and the U.S. (\$54,149). This speaks to the notion discussed above of subdued wage growth throughout Erie County. By 2021, the median household income in the Market Area is expected to increase slightly to \$47,966, remaining below figures for the County (\$50,232), State (\$59,638) and U.S. (\$59,476). The following table shows current and projected median household incomes in the Market Area, County, Commonwealth, and U.S.

Table 3 - 4

Median Household Income - Erie, PA Market Area (2016-2021)				
	Erie Market Area	Erie County	Pennsylvania	U.S
2016	\$44,897	\$46,365	\$53,805	\$54,149
2021 (Projected)	\$47,966	\$50,232	\$59,638	\$59,476
CAGR* (2016-2021)	1.3%	1.6%	2.1%	1.9%

* Compounded Annual Growth Rate

Source: Esri ArcGIS BAO, Johnson Consulting

EMPLOYMENT

In 2015, which is the most current data available, the predominant industry of employment in Erie County was Education and Health Services (21.3 percent), reflecting the concentration of higher education institutions and the established medical district, followed by Trade, Transportation and Utilities (17.4 percent). Between 2014 and 2015, increases in employment were recorded in Professional and Business Services (5.1 percent), while the largest decrease was recorded in the Information sector, contracting by (10.7) percent. The following table shows employment by industry in Erie County. It is noted that this data is not available at the City or Township level, and hence could not be provided for the defined Erie Market Area.

Table 3 - 5

Non-Farm Employment by Industry - Erie County (2014-2015)			
	2014	2015	Growth Rate 2014-2015
Natural Resources and Mining	495	500	1.0%
<i>% of Total</i>	0.4%	0.4%	
Construction	3,794	3,816	0.6%
<i>% of Total</i>	3.1%	3.1%	
Manufacturing	22,003	22,230	1.0%
<i>% of Total</i>	17.7%	17.8%	
Trade, Transportation, and Utilities	21,456	21,648	0.9%
<i>% of Total</i>	17.3%	17.4%	
Information	1,186	1,059	(10.7%)
<i>% of Total</i>	1.0%	0.8%	
Financial Activities	6,173	5,864	(5.0%)
<i>% of Total</i>	5.0%	4.7%	
Professional and Business Services	8,901	9,354	5.1%
<i>% of Total</i>	7.2%	7.5%	
Education and Health Services	26,470	26,545	0.3%
<i>% of Total</i>	21.3%	21.3%	
Leisure and Hospitality	13,865	14,133	1.9%
<i>% of Total</i>	11.2%	11.3%	
Other Services	4,716	4,720	0.1%
<i>% of Total</i>	3.8%	3.8%	
Government	15,049	14,791	(1.7%)
<i>% of Total</i>	12.1%	11.9%	
TOTAL	124,108	124,660	0.4%

Source: BLS, Johnson Consulting

Historical employment figures from the BLS are available back to 2012. The following table show the average annual change in employment by sector between 2012 and 2015, highlighting an overall decline in employment at an average annual rate of (1.2) percent, with significantly higher rates of job loss reported in the Information and Manufacturing sectors. This reflects the overall decline of the area's manufacturing base, and increased competition from other locations that have seen expansion in their information and high-tech sectors.

Table 3 - 6

Average Annual Change in Non-Farm Employment by Industry - Erie County (2012-2015)	
	Annual Change (%)
Natural Resources and Mining	1.8%
Construction	0.2%
Manufacturing	(5.9%)
Trade, Transportation, and Utilities	0.0%
Information	(8.6%)
Financial Activities	(0.2%)
Professional and Business Services	1.4%
Education and Health Services	(0.6%)
Leisure and Hospitality	1.8%
Other Services	(0.7%)
Government	(0.6%)
TOTAL	(1.2%)

Source: BLS, Johnson Consulting

UNEMPLOYMENT

The following table shows the annual unemployment rates for Erie County, Pennsylvania and the U.S., for the period of 2010 through 2015. It is noted that data is only available at the City level for the 50 largest cities and boroughs in the U.S., and as such is not available for the Erie Market Area.

Table 3 - 7

Unemployment Rate - Erie County (2010-2015)						
	Erie County		Pennsylvania		U.S.	
	Rate	Change	Rate	Change	Rate	Change
2010	9.3%	-	8.5%	-	9.6%	-
2011	8.1%	(1.2)	7.9%	(0.6)	8.9%	(0.7)
2012	7.8%	(0.3)	7.8%	(0.1)	8.1%	(0.8)
2013	7.5%	(0.3)	7.4%	(0.4)	7.4%	(0.7)
2014	6.2%	(1.3)	5.9%	(1.5)	6.2%	(1.2)
2015	5.3%	(0.9)	5.1%	(0.8)	5.3%	(0.9)

Source: BLS, Johnson Consulting

Since 2010, the unemployment rate in Erie County has generally tracked in line with State and national averages. In 2015, the unemployment rate in the County contracted by (0.9) percent to 5.3 percent, which was consistent with rates recorded in the Commonwealth (5.1 percent) and national averages (5.3 percent).

CORPORATE PRESENCE

A strong corporate and business presence can be an important factor in the success of any new real estate development because local businesses can generate demand for office and retail space, attract residents to an area, provide income and disposable income, and support facilities through donations, advertising, and sponsorships. The following table shows the largest employers in Erie County. The largest employers are General Electric Company, and Erie Indemnity Company, with the remainder spread across a range of industries particularly Health Care, Government, and Education.

Table 3 - 8

Largest Employers - Erie County (2016)	
Employer	Industry
General Electric Company	Manufacturing
Erie Indemnity Co	Insurance
UPMC Hamot	Health Care
State Government	Government
St. Vincent Health Center	Health Care
Wal-Mart Associates Inc.	Retail
Federal Government	Government
School District of the City of Erie	Education
Erie County	Government
Dr. Gertrude A Barber Center	Education

Source: PA Department of Labor and Industry, Johnson Consulting

EDUCATIONAL INSTITUTIONS

Erie is home to a number of higher educational institutions:

- Gannon University:** A private Catholic university located in downtown Erie offering doctoral, master's bachelor's and associate degree programs across the Colleges of Engineering and Business, Humanities, Education and Social Sciences, Health Professions and Sciences. The University has a total enrollment of 4,343 undergraduate and graduate students.
- Mercyhurst University:** A four-year, Catholic liberal arts college located to the south of downtown Erie. The University offers 50 undergraduate and 8 graduate programs through the Colleges of Natural and Health Sciences, Intelligence Studies and Applied Science, Humanities, Arts and Social Sciences, and Business. The University has a total enrollment of 4,300 students.
- Penn State Behrend:** A four-year residential college offering 37 bachelor's degrees, 5 master's degrees and 4 associate degree programs within the Black School of Business, School of Engineering, School of Humanities and Social Sciences, School of Science, and the Nursing Program. Enrollment totals 5,050 undergraduate and graduate students, of whom 1,750 students live on the 854-acre campus immediately to the southeast of Erie.
- Lake Erie College of Osteopathic Medicine (LECOM):** Offers doctorate degrees in Osteopathic Medicine, Dental Medicine, and Pharmacy, master's degrees in Health Services Administration,

Medical Education, Biomedical Science, and Medical Science, and a Health Science Post Baccalaureate. The LECOM campus is located at the southwest edge of Erie, with total enrollment of 4,140 students.

- **Edinboro University of Pennsylvania:** Located in Edinboro, PA, approximately 23 miles to the southwest of downtown Erie, Edinboro University is a comprehensive public university. The University offers baccalaureate, graduate and associate degree programs and certificates throughout the Colleges of Arts, Humanities and Social Science, Science and Health Professions, Business, and Education, with a total enrollment of 6,550 students.

ACCESS

The strategic location of Erie between Buffalo, NY and Cleveland, OH makes it accessible via a number of modes of transportation:

- **Air:** Erie International Airport is located approximately 6 miles to the southwest of the subject site, with daily non-stop flights to Philadelphia, PA, Detroit, MI and Chicago, IL operated by United, Delta and U.S. Airways.
- **Rail:** Amtrak operate a daily service between Chicago, IL and New York City, NY via Erie Station, which is an intermodal hub located in downtown Erie.
- **Bus:** Greyhound operates a number of routes through Erie, connecting with Buffalo, NY, Cleveland, OH and Pittsburg, PA.
- **Road:** Interstate Highway 90 runs directly to the south of Erie, providing direct connectivity with Buffalo, NY and Cleveland, OH, and intersecting with Interstate Highway 79 to the southwest of Erie, to provide a direct link with Pittsburg, PA.

HOTEL INVENTORY

Data from Smith Travel Research (STR), which is an independent hotel research firm whose statistics are widely used within the industry, indicates that the Erie hotel market comprises 33 hotel properties, offering a total of 3,175 guest rooms. The following table provides a summary of key indicators within the Erie hotel market for the 12 month period ending November 2016, highlighting changes relative to the same period of 2015. As shown, occupancy rates contracted by (6.1) percent to 53.0 percent, with Revenue per Available Room (RevPAR) contracting at a similar rate of (4.0) percent to \$50.59 per room night. During the same period, positive growth was recorded in the Average Daily Rate (ADR), increasing by 2.2 percent to \$95.43.

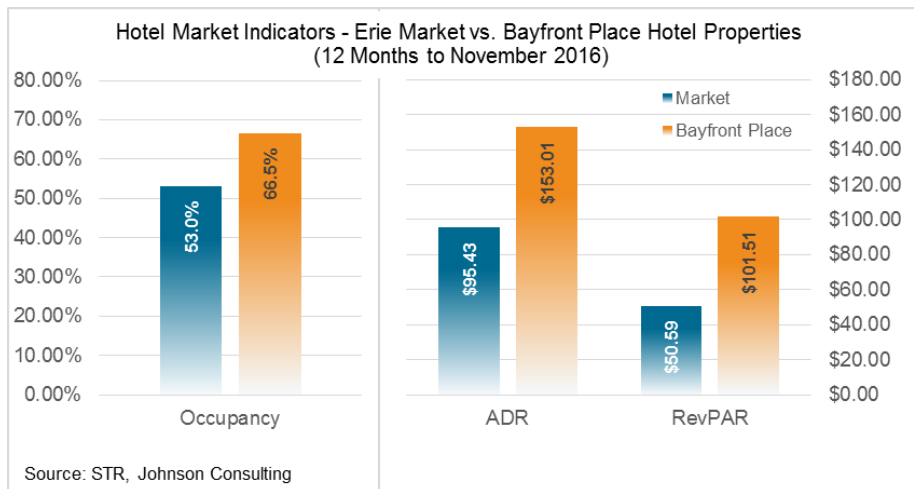
Table 3 - 9

Erie Hotel Market Indicators (2016)		
	12 Months to November 2016	% Change over Previous 12 Months
Occupancy	53.0%	(6.1%)
ADR	\$95.43	2.2%
RevPAR	\$50.59	(4.0%)

Source: STR, Johnson Consulting

There are 2 hotel properties located at Bayfront Place – the 192-room Courtyard Erie Bayfront, which opened in June 2016 and the 200-room Sheraton Hotel Erie Bayfront, which opened in April 2008. As shown in the following figure, the performance of these 2 hotel properties has outpaced the market dramatically, reporting an average occupancy across the 2 properties of 66.5 percent, an ADR of \$153.01, which was 60.3 percent higher than the market rate, and a RevPAR of \$101.51, which was more than double the market rate.

Figure 3 - 4



IMPLICATIONS

The Erie Market Area is characterized by a small but established population. Historic and recent population decline was attributed to the erosion of the region’s manufacturing base, with minimal anticipated growth reflecting competition from regional locations, including Buffalo, NY, Cleveland, OH, and Pittsburgh, PA, with respect to stronger employment and economic opportunities. Residents of the Erie Market Area are reasonably well educated but record median household incomes that are approximately \$10,000 lower than State and national averages. Subdued wage growth is also contributing to population decline.

The subject site presents a unique opportunity to retain, and attract new, workers and residents to Downtown Erie, by developing an underutilized site on the waterfront, in close proximity to the BCC and adjacent hotel properties. The existing hotel properties are outperforming the market and, along with the BCC, are already attracting significant numbers of visitors to the site.

Pursuant to the vision of the Erie Downtown Master Plan, the proposed development will ideally include a mix of land uses designed to enhance the attractiveness of Erie as a destination to live, work and play. Further, it can respond to specific goals of the Master Plan related to improving the overall physical environment, pursuing economic development opportunities including retail, office, technology, arts and cultures, and tourism business, and increasing the supply of market-rate housing, as well as real estate taxes. Critical to the success of the project, will be the ability for Bayfront Place to evolve as an extension to the Downtown area and a pedestrian bridge will be an important element of this physical, and visual, connectivity.

SECTION 4

REAL ESTATE MARKET TRENDS

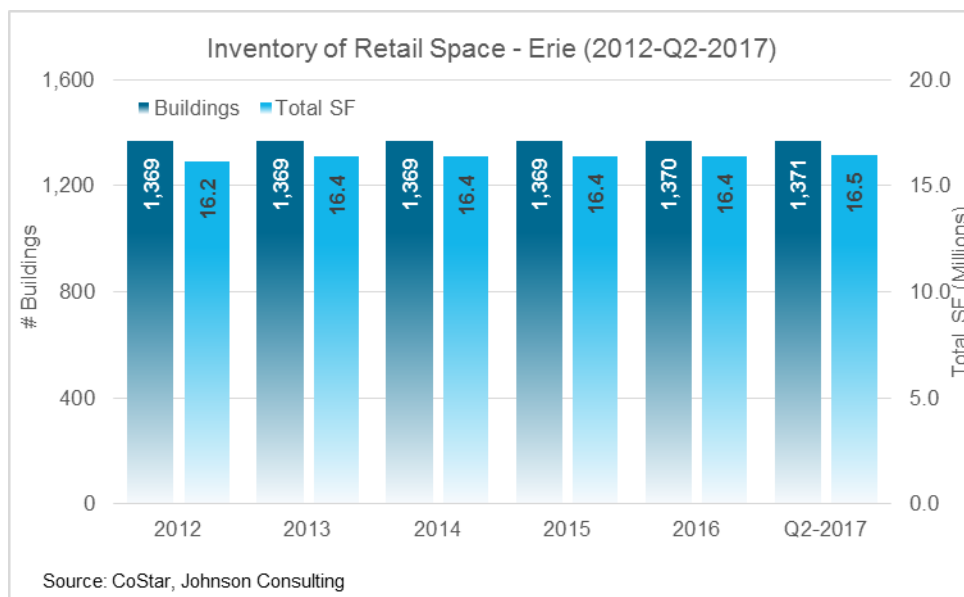
REAL ESTATE MARKET TRENDS

This section provides a summary of key indicators within the retail, office, and residential multi-family markets in Erie. The following analysis is based upon the most current sources of published data available at the time of this study, primarily CoStar, and supplemented by information gathered through interviews with local brokers and real estate professionals.

RETAIL

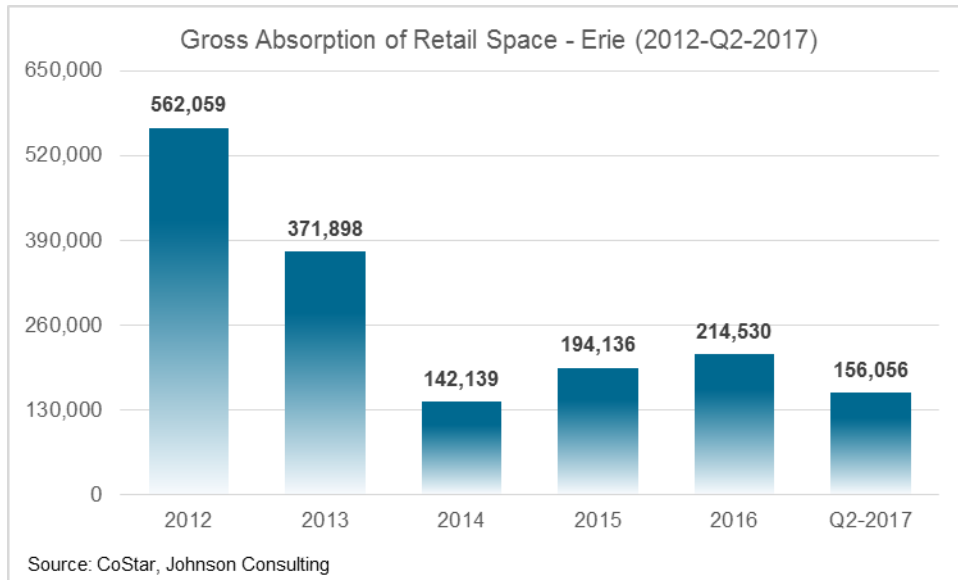
INVENTORY: At the end of Q2-2017, the Erie retail market was comprised of 1,371 retail properties totaling 16.5 million SF. The following figure shows the total retail space inventory in Erie since 2012, indicating that the inventory has remained relatively stable, with 25,000 SF delivered to the market in 2016 at Greengarden Place (W 8th Street and Greengarden Road; replacing the former 10,000 SF Greengarden Plaza).

Figure 4 - 1



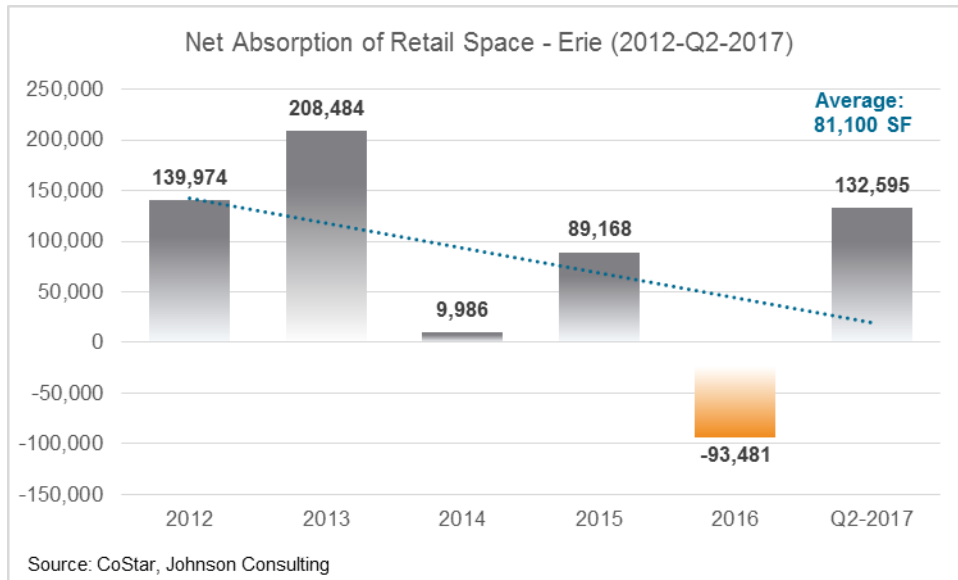
ABSORPTION: The Erie retail market has recorded positive gross absorption since 2012, albeit it at a slowing pace, with 214,530 SF absorbed in 2016. Notwithstanding this, in Q1 and Q2-2017, 156,056 SF was absorbed in the Erie market, representing 73 percent of the total absorption reported in 2016. The following figure shows gross absorption of retail space since 2012 in the Erie market.

Figure 4 - 2



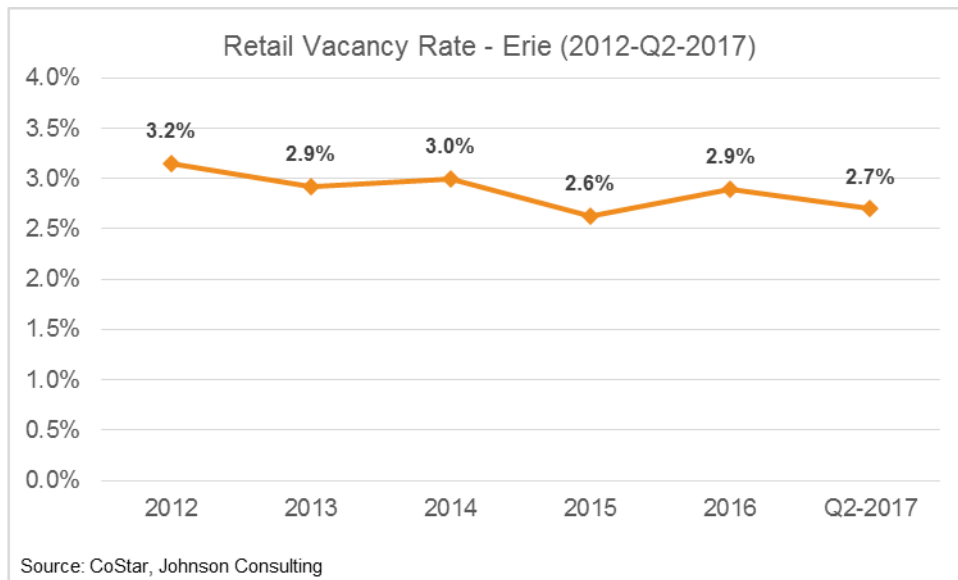
In 2016 the Erie retail market recorded a negative net absorption of (93,481) SF, whereby net absorption defined as occupied space less vacated space. This was down from a positive net absorption of 89,168 SF in 2015, although it is noted that in a market as small as Erie, net absorption is a particularly volatile metric. Based upon our discussions with local real estate brokers, it is our understanding that the fluctuations in net absorption do not so much reflect new space being delivered to the market and remaining vacant, but rather the relocation of large retail tenants among existing and new purpose-built premises. In mid-December 2016, the Sears at Millcreek Mall closed. Although a new tenant has been found, this may have influenced the overall negative net absorption reported in the market in 2016. In contrast to 2016, in Q1 and Q2-2017 the Erie market reported a positive net absorption of 132,595 SF. The following figure shows net absorption of retail space in the Erie market since 2012, highlighting an average absorption of 81,100 SF per annum.

Figure 4 - 3



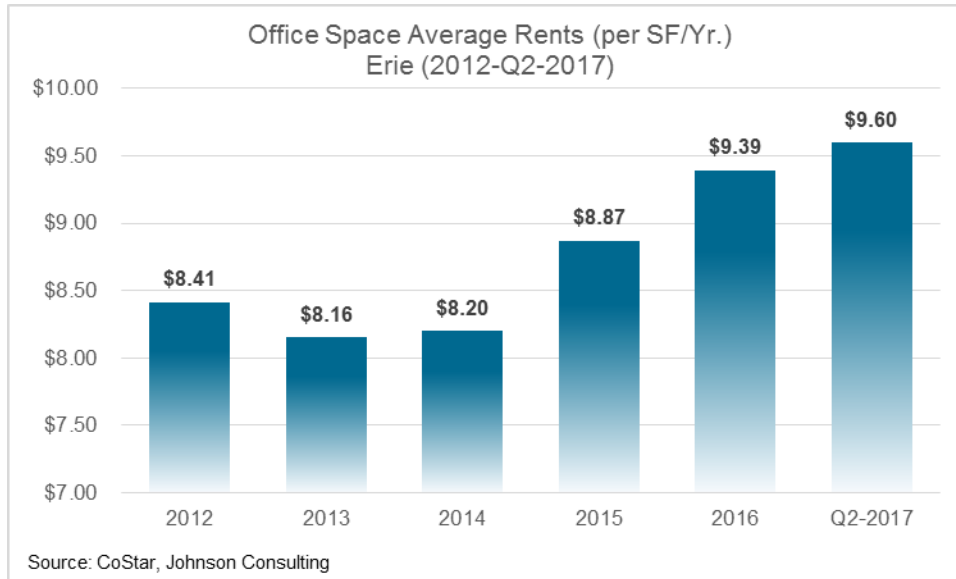
VACANCY: Since 2012, the vacancy rate in the Erie retail market has remained relatively stable, contracting slightly in Q2-2017 to 2.7 percent, down from 2.9 percent in 2016. The following figure shows the vacancy rate in the Erie retail market, across all retail classifications.

Figure 4 - 4



LEASE RATES: Since 2012 retail rents in the Erie market have increased overall at an average annual rate of 2.4 percent, peaking at \$9.60 per SF per annum (triple net) in Q2-2017, across all retail types. This represents a increase over 2016 (\$9.39 per SF per annum). The following figure shows average rents in the Erie retail market since 2012, across all retail property classifications.

Figure 4 - 5



There is a limited inventory of new retail space available in Erie. The following table summarizes asking rents for currently available spaces at one new property and one older but sought after strip center, highlighting rents ranging from \$11.00 to \$13.00 per SF per annum.

Table 4 - 1

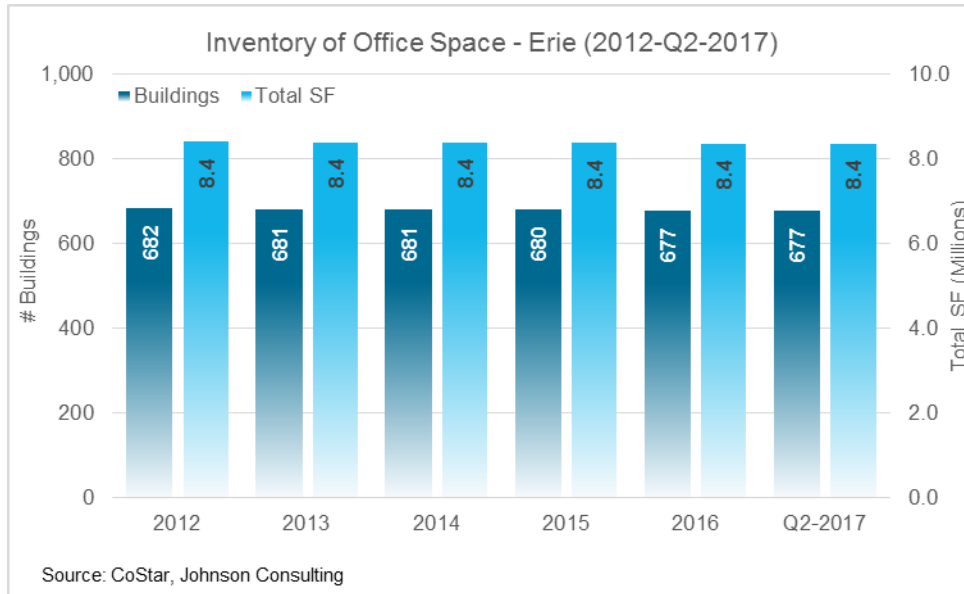
Available New Retail Space - Erie, PA			
Address	Built	Available SF	Asking Rent (per SF Yr.)
Greengarden Place**	2016	2,035 SF	\$13.00
		4,070 SF	\$13.00
The Shoppes at 12th and Peninsula**	2001	4,050 SF	\$12.50
		4,539 SF	\$11.00

** Strip Center
 Source: LoopNet, Johnson Consulting

OFFICE

INVENTORY: At the end of Q2-2017, the Erie office market was comprised of 677 buildings totaling 8.4 million SF. The following figure shows the total office space inventory in Erie since 2012, indicating that the inventory has remained stable.

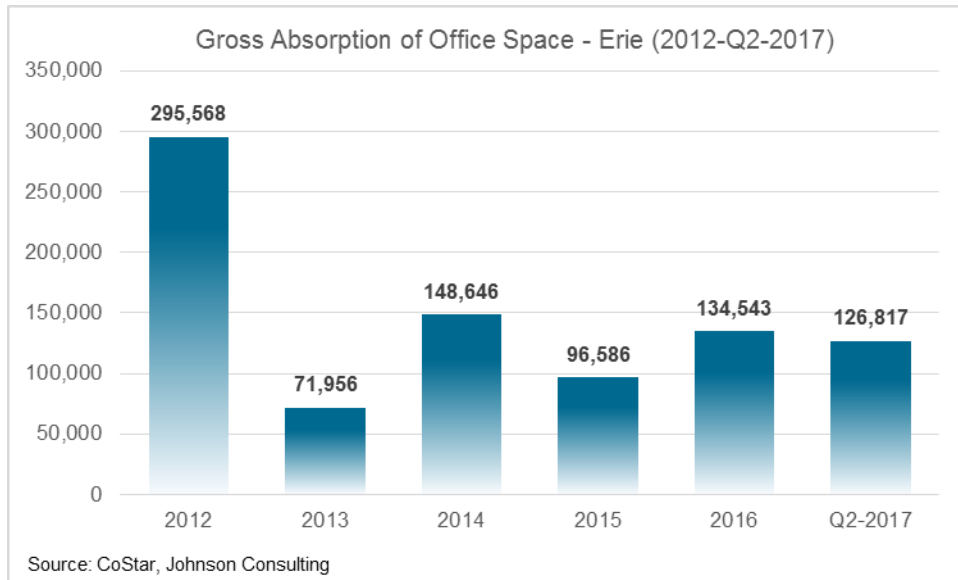
Figure 4 - 6



Erie Indemnity Company is currently constructing a new Erie Insurance Home Office Campus at 144 E 6th Street in downtown Erie. The 7-story, 346,000 SF building, which will be developed at a total cost of \$135 million, is scheduled to break ground in Spring 2017. The building will be owner-occupied and will bring 600 new employees to Erie.

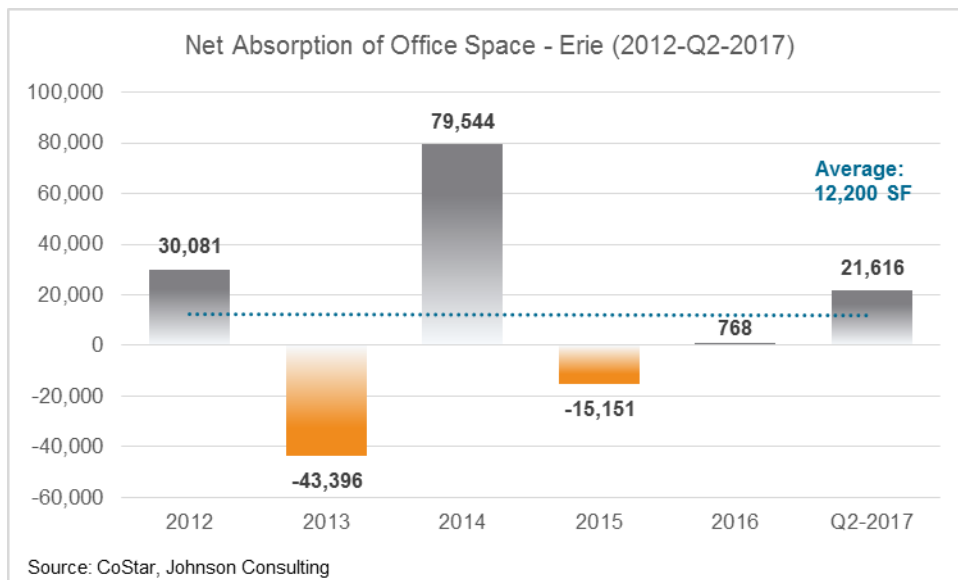
ABSORPTION: The Erie office market has recorded positive gross absorption since 2012, with 126,817 SF absorbed in Q1 and Q2 of 2017, almost equal to the total absorption recorded in 2016 (134,543 SF). The following figure shows gross absorption of office space since 2012 in the Erie market, across all office classes.

Figure 4 - 7



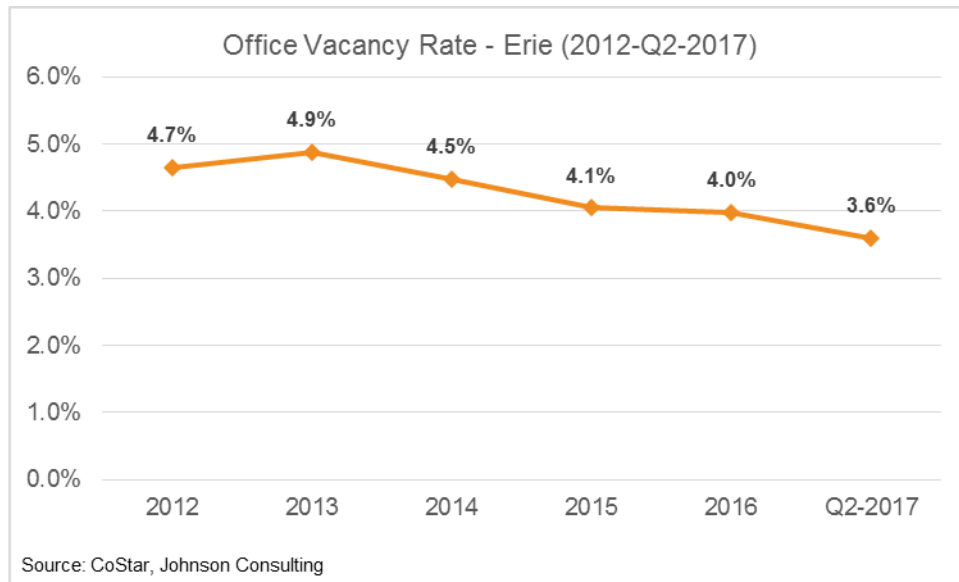
In Q1 and Q2-2017, the Erie office market recorded a slight positive net absorption of 21,616 SF, with net absorption defined as occupied space less vacated space. The following figure shows net absorption of office space since 2012. The fluctuation in absorption reflects the relocating of tenants, rather than any major buildings being delivered to the marketplace, highlighting an upward trend and an average net absorption of 12,200 SF.

Figure 4 - 8



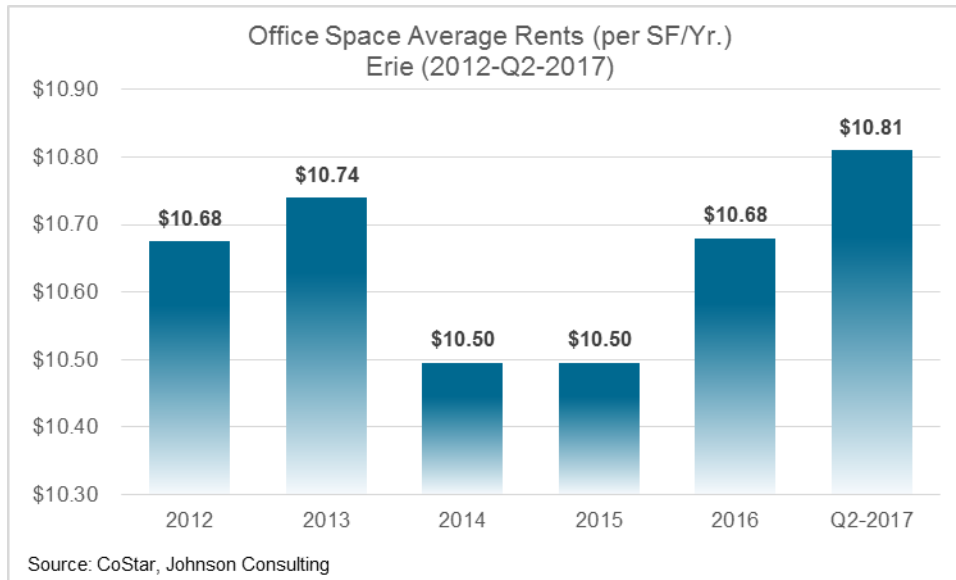
VACANCY: In Q2-2017, the vacancy rate in the Erie office market contracted to 3.6 percent, continuing the downward trend observed since the most recent peak of 4.9 percent in 2013. The following figure shows the vacancy rate in the Erie office market, across all building classes, since 2012.

Figure 4 - 9



LEASE RATES: Since 2012, rents have remained relatively stable in the Erie office market, fluctuating from a low of \$10.50 per SF per annum in 2014 and 2015 to a high of \$10.81 per SF per annum in Q2-2017. This represents an increase over 2015, when the average rent was \$10.68 per SF per annum. The following figure shows average rents in the Erie office market since 2012, across all building classes.

Figure 4 - 10



There is a limited inventory of Class A office space in Erie. The following table summarizes asking rents for currently available spaces at the 2 premiere properties, highlighting substantially higher than average rents of \$19-\$22 per SF per annum, with a recent lease at 100 State Street, which is considered among local brokers to be the premier office space in downtown Erie, achieving a full service rent of \$22.50 per SF per annum.

Table 4 - 2

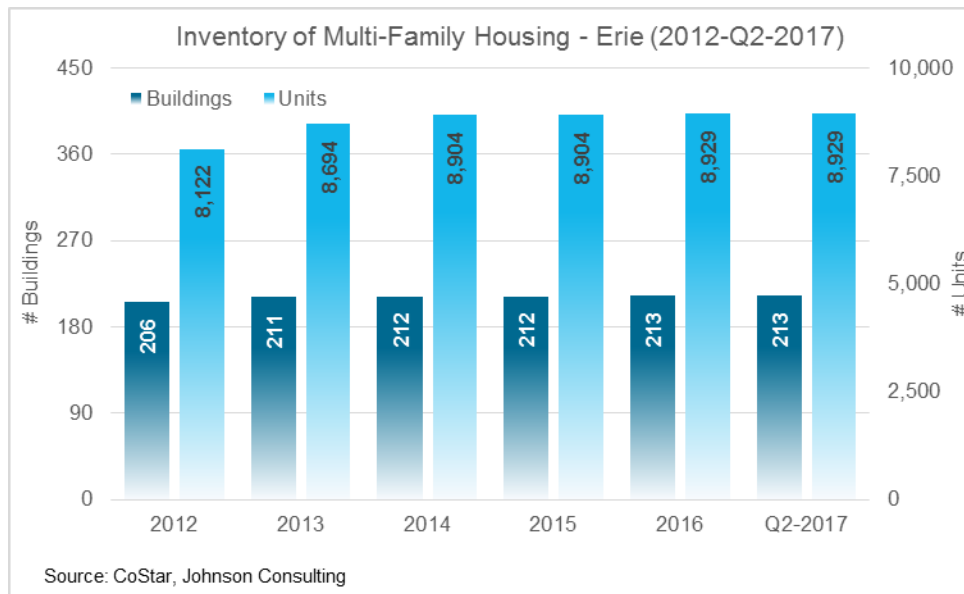
Available Class A Office Space - Erie, PA			
Address	Built	Available SF	Asking Rent (per SF/ Yr.)
Bayview Office Park	2001	17,900 SF	\$19.76
100 State Street	1988	1,541 SF	\$22.50
		1,405 SF	\$20.50
<i>Recently Leased*</i>		10,000 SF	\$22.50

* Includes T/I Allowance of \$7-\$10
 Source: LoopNet, Johnson Consulting

MULTI-FAMILY HOUSING

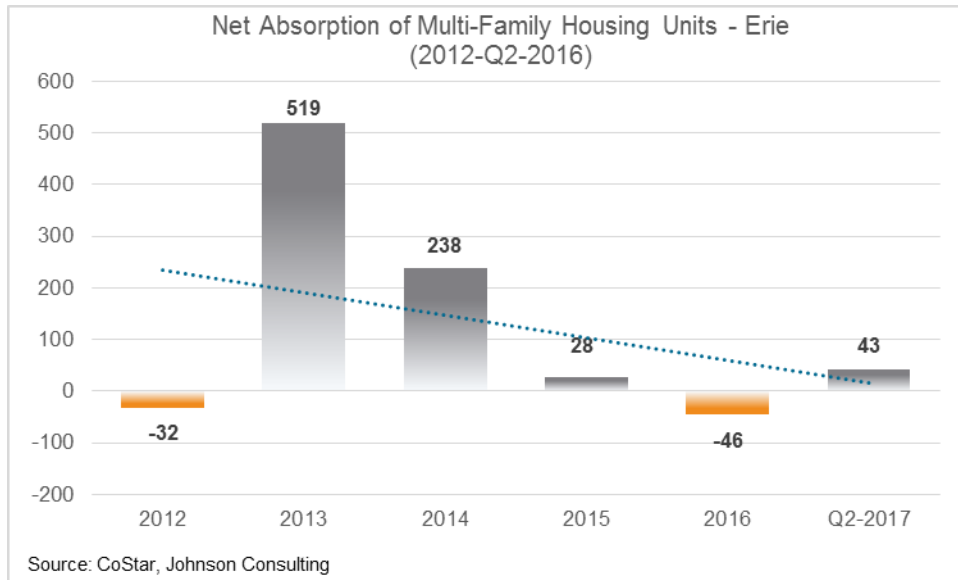
INVENTORY: At the end of Q2-2017, the Erie multi-family housing market was comprised of 213 buildings totaling 8,929 units. The following figure shows the inventory of multi-family housing in Erie since 2012, indicating that the inventory has remained relatively stable, with the total number of units increasing at an average annual rate of 1.7 percent.

Figure 4 - 11



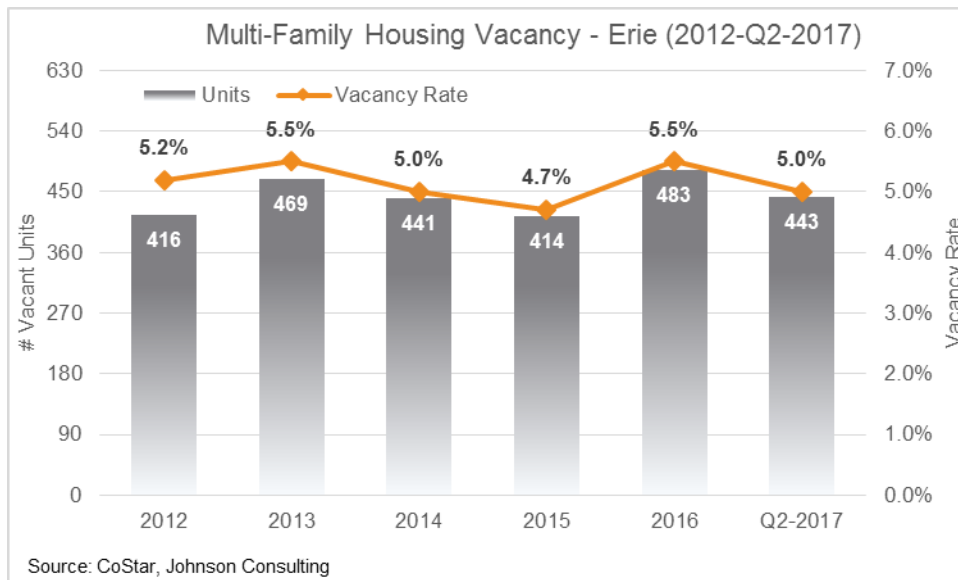
SALES AND ABSORPTION: The Erie multi-family housing market recorded a slight positive net absorption in Q1 and Q2-2017, totaling 43 units, and representing a considerable improvement over 2016, when the market reported a slight negative net absorption of (46) units. This, in part, reflects a lack of new inventory delivered to the market. The following figure shows net absorption of multi-family housing units since 2012 in the Erie market, highlighting an average net absorption of 125 units per annum.

Figure 4 - 12



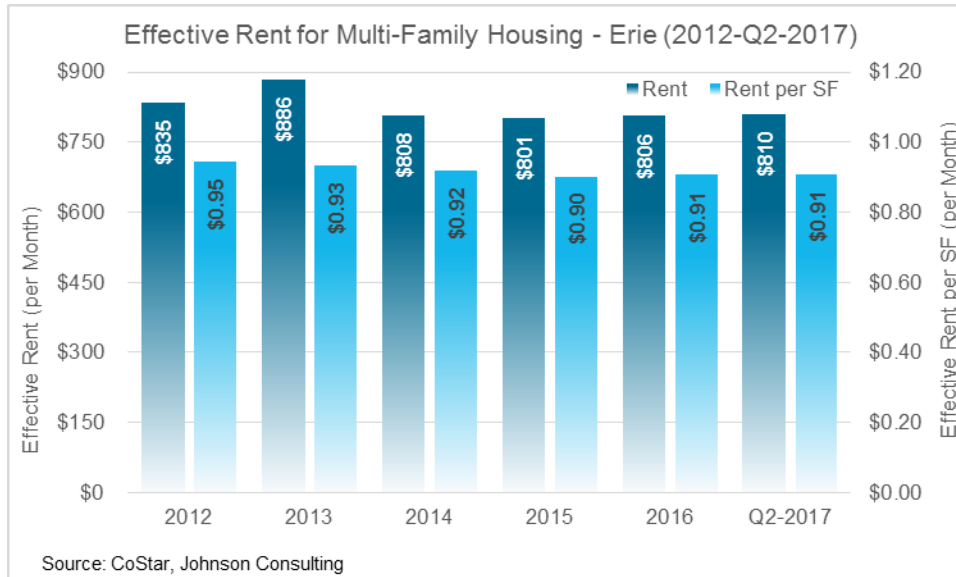
VACANCY: At the end of Q2-2017, the Erie multi-family housing market reported a vacancy of 443 units or 5.0 percent, down from 483 vacant units or 5.5 percent in 2016. The following figure shows the vacancy rate in the Erie multi-family housing market since 2012.

Figure 4 - 13



LEASE RATES: Since 2012 effective rents for multi-family housing have remained relatively stable. At the end of Q2-2017, the effective rent was \$810 per month or \$0.91 per SF per month, which was generally consistent with 2016 figures (\$806 per month or \$0.91 per SF per month). The following figure shows average rents in the Erie multi-family housing market since 2012.

Figure 4 - 14



The following figure summarizes current asking rents for available waterfront units in attractive older projects.

Figure 4 - 15

Current Asking Rents for Waterfront Residential Apartments - Erie, PA					
	Built	Units	Available	Unit Mix	Rents (per Month)
10 Peninsula Drive	1987	-	1	2 Bed/ 2 Bath	\$2,250
Crystal Point Condos	1990	-	-	1 Bed/ 1 Bath	\$1,265
South Shore Place	1980*	89	2	1 Bed/ 1 Bath: 720 SF	\$1,230
				2 Bed/ 2 Bath: 1,440 SF	\$1,365

* South Shore Place is older but has attractive amenities and is located on the bayfront. It predominantly attracts older tenants.

Source: LoopNet, Zillow, Trulia, Relevant Projects, Johnson Consulting

SALE PRICES: In recent years, there have been very few condo sales in and around downtown Erie, reflecting the low inventory of units. The following table summarizes recent sales at 10 Peninsula Drive and Niagara Pier, which are both high-end condo developments, and Crystal Point, which is mid-level but also waterfront.

Table 4 - 3

Recent Sale Prices for Waterfront Condos - Erie, PA			
Address	Unit Size	Price	Price per SF*
10 Peninsula Drive	2 Bed/ 2 Bath: 1,130 SF	\$385,000	\$341
Crystal Point Condos	2 Bed/ 2.5 Bath: 1,735 SF	\$245,000	\$140
Niagara Pier	3 Bed/ 3 Bath: 2,624 SF	\$470,070	\$180

Source: Zillow , Johnson Consulting

NEW MIXED-USE PROJECTS

To the east of Bayfront Place, the proposed Harbor Place mixed-use development has been in various stages of planning since the site was purchased by Scott Enterprises in 1999. The latest plans for the 12-acre site indicate an intention to break ground on Phase 1 of the project in Fall 2017. The following figure summarizes the key components of the proposed development.

Figure 4 - 16

Proposed Harbor Place Mixed-Use Development - Erie, PA	
	<p>Program 2 Hotels (incl. Hampton Inn & Suites) 150 Residential Units 30,000 SF Retail 100,000 SF Office Space 2 Parking Garages Foot Bridge Connecting to French Street</p>
	<p>Phase 1 Scheduled to Commence Spring 2017 Hotel, Office, Parking</p>
	<p>Project Cost \$150 M</p>
	<p>Funding \$5 MPA Redevelopment Assistance Capital Program (Awarded October 2016)</p>

Source: Weber Murphy Fox, Scott Enterprises

IMPLICATIONS

As is being observed in many markets nationally, Erie is experiencing “urbanization”, albeit on a much smaller scale in terms of the overall size of the community. This reflects broader demographic shifts towards millennials

and active adults seeking urban lifestyles. Based upon current trends and the outlook for the Erie market, our assessment of the potential for the subject site to support the proposed land uses is as follows:

- **Retail:** In Q2-2017, the market reported positive net absorption of 132,595 SF of retail space, representing a considerable improvement over 2016, when a negative net absorption of (93,481) SF was reported. Notwithstanding this, the general lack of new inventory in recent years has placed upward pressure on rents, reaching \$9.60 per SF per annum in Q2-2017.

The Erie Downtown Master Plan indicated demand for an additional 54,000 SF of restaurant space, 25,000 SF of apparel and clothing stores, 21,000 SF of specialty stores, and 15,000 SF of leisure-oriented specialty stores. Although this potential relates to the entire downtown area, it is our considered opinion that retail space will be attractive on the subject site, particularly if a pedestrian bridge is added, as highlighted in the Downtown Erie Master Plan. Any new retail on the subject site will be in part supported by demand from onsite workers and residents, residents and workers within the proximate downtown area, and depending on the types of retail offerings, the broader area as well, given the attractive setting of the proposed Bayfront Place project.

- **Office:** The inventory of office space in Erie has remained stable since 2012, with positive gross absorption and an upward trend in net absorption. At the end of Q2-2017, the market reported a vacancy rate of 3.6 percent, continuing the downward trend observed since the most recent peak of 4.9 percent in 2013, and placing upward pressure on rental rates, which reached \$10.81 per SF per annum in Q2-2017. New construction is limited to purpose-built space, with very little speculative building occurring in the marketplace. It is noted through our discussions with local real estate brokers that the lack of speculative building reflects unfavorable economics related to building and occupancy costs. As such, any new office space on the subject site will need to induce demand to the local marketplace, with guaranteed tenancies improving the attractiveness from a developer's perspective.

There may be potential for new office space on the subject site to attract larger private and institutional tenants, requiring additional space to accommodate expansion or desiring newer premises. Lower income taxes than New York State may also add to the appeal of corporations seeking to relocate, however pre-commitment should be sought over speculative build. Nationally, as well as locally, there is increasing demand for smaller live-work spaces and temporary/ shared co-working offices, such as WeWork. Given the attractive setting of the proposed development and the prospect of adjacent quality housing, these smaller scale office spaces also have potential to capture unmet market demand.

- **Residential:** Erie's residential market has also remained relatively flat over recent years, although reported a slight positive net absorption of multi-family units in Q1 and Q2-2017 of 43 units. Rental rates also increased to \$810 per month or \$0.91 per SF in Q2-2017. The waterfront views commanded by the subject site, as well as the attractiveness of the proposed landscaping and onsite amenities, create potential for a high quality, market-rate residential product. Established and attractive surrounding neighborhoods, particularly to the southwest of the subject site, will also help to support higher prices



and rents. A mix of for-sale condos, and a small number of rental apartments, is recommended. A condo product will create more certainty for prospective tenants of ground floor retail spaces.

Building upon the housing survey conducted for the 2014 Master Plan, sources of demand are likely to include young relocating professionals seeking to purchase their first home, with employment either onsite or in the downtown area, with proximity to the medical campus serving as a potential demand source; older households seeking to downsize and relocate to an urban area with amenities within walking distance; and a mix of middle and upper income households. Investors and second home purchasers are likely to express demand given the higher than market rents that the units, particularly those that command waterfront views, will be able to achieve. The new Erie Insurance Home Office Complex, which will create 600 new jobs, will also be a potential source of demand for the project.

Overall, Erie's real estate market has remained relatively flat over recent years but is showing signs of slightly increased momentum with rental rates reaching their highest levels in Q2-2017 across the retail, office and residential multi-family sectors. In many respects, this can be attributed to the shortage of new supply and unmet demand for new product in the downtown area. The subject site presents a unique opportunity to create a highly attractive, mixed-use project on an under-developed parcel that commands impressive waterfront views. Based upon our discussions with local real estate brokers, it is our considered opinion that the residential sector presents the most significant opportunity for the site, reflecting unmet demand in the marketplace and the locational attributes of the site, aesthetically as well as in terms of proximity to major employment opportunities, such as UPMC, Erie Insurance and Gannon University, all of which are within walking distance of Bayfront Place. As it relates to retail and restaurant space, the leasing agent responsible for the new onsite retail space stated interest from multiple restaurant operators. If additional, larger retail premises are offered on the site, this demand could be captured. Office space will require induced demand but through creative concepts, such as smaller live-work spaces and temporary/ shared co-working offices, this may be achievable.

SECTION 5

DEVELOPMENT PROGRAM RECOMMENDATIONS

DEVELOPMENT PROGRAM RECOMMENDATIONS

Based upon the analysis presented in preceding sections of this report, as well as our experience in providing advisory services for similar projects and markets, we have developed a recommended mix of land uses for Bayfront Place. The following figure summarizes our vision.

Figure 5 - 1



As shown, it is our independent and considered opinion that the market can support approximately 200 residential units, including a mix of rental and for-sale properties, 100,000 SF of retail, and 70,000 SF of office space on the site of the proposed Bayfront Place. A development of this scale would require approximately 1,500 parking spaces.

PRELIMINARY DEVELOPMENT PLAN

Erie Events previously commissioned Kidder Wachter Architecture & Design contemplates a variety of land uses for Bayfront Place to prepare a preliminary Development Plan for Bayfront Place. The Plan, which is organized around a series of formal and informal outdoor landscaped spaces and interconnected pedestrian and vehicular circulation systems, includes a total of 487,138 SF of leasable retail, office and residential space and supported by 1,514 surface and deck parking space. The following table summarizes the development program prepared by Kidder Wachter Architecture & Design.

Table 5 - 1

Bayfront Place Proposed Development Program	
Land Use	SF (Gross)
Retail	113,258
Retail - Standalone	32,000
Retail - Ground Floor*	81,258
Office	76,292
Residential	297,588
Residential - Units	200
TOTAL	487,138
Parking	1,514 Spaces

Source: Kidder Wachter Architecture & Design

Based upon our independent assessment of the market potential for the proposed development, we generally agree with the proposed development program and the mix of uses presented in the preliminary Development Plan. The following figure shows the proposed conceptual Development Plan, by land use and highlighting the desire to create lively sidewalk experiences via first floor storefront spaces for retail shops, restaurants, and building lobbies, and residential units and/ or office space on the upper floors.

Figure 5 - 2



Source: Kidder Wachter Architecture & Design

The Development Plan divides the proposed program into 9 Development Districts. The following figure shows the location of these districts.

Figure 5 - 3



Source: Kidder Wachter Architecture & Design

The following table summarizes the vision for each Development District and the associated land uses. The buildings included in each District are identified in Figure 5-4.

Table 5 - 2

Bayfront Place - Proposed Development Program by District and Land Use						
District	Description/ Vision	Buildings	Retail (SF)	Office (SF)	Residential (SF)	Total (SF)
Office District	Class A - walkable, live/work/play environments; Network of parks and open spaces providing 'view corridors' of Presque Isle Bay and Erie's skyline.	E, L	-	58,050	-	58,050
Market District	Premier shopping destination catering to residents and visitors; A new pedestrian bridge will connect Bayfront Place to downtown.	M	20,000	-	-	20,000
Central Square	Year-round, tree-lined neighborhood park framed by residential and office uses, shopping and dining; Landscaping elements, tables and chairs, benches, and a pavilion café.	F, K	18,146	18,242	27,075	63,463
Sassafras Street	Lively pedestrian street lined with ground floor shops and restaurants; Main north-south corridor street terminating at the BCC and Courtyard Marriott.	J, N, P	27,139	-	81,417	108,556
Marina District	Mid-rise residential development (rental apartments and condos) with connected parking and a walkable community setting; Views to West Canal Basin, active transient dock and marina.	O	12,000	-	14,250	26,250
Convention Center District	BCC, Courtyard Marriott and parking garage with 8,000 SF of commercial space	Existing	-	-	-	-
The Great Lawn	1-acre green with potential for public events (art festivals, fireworks displays, movie nights, etc.)	-	-	-	-	-
Main Street	3- and 4-story buildings lining street and wrapping around parking; Ground floor retail and commercial spaces.	G, H, I	35,973	-	103,742	139,715
Waterfront District	3 w half-style, 1-story buildings for restaurants and entertainment uses; Landscaped pocket parks for outdoor activities.	A, B, C, D	12,000	-	14,250	26,250
TOTAL			113,258	76,292	297,588	487,138
			incl. 81,258 SF Ground		200 units	

Source: Kidder Wachter Architecture & Design

In our judgement, this initial plan is consistent with urban development trends and has potential to change the face of downtown Erie. It also is consistent with similar waterfront sites seen in other smaller markets on the Great Lakes.

PROJECT PHASING

Regardless of whether the Harbor Place project also proceeds, we have developed recommendations regarding the proposed phasing of the project. As a means of reference, the following figure identifies the various buildings within the proposed Bayfront Place development, as identified in the Development Plan.

Figure 5 - 4



Source: Kidder Wachter Architecture & Design

It is recommended that Bayfront Place evolve as an extension to downtown Erie, leveraging, and dependent upon, access being provided over Bayfront Parkway via a new pedestrian bridge. Buildings M, L and E will also benefit from high vehicular visibility, having frontage to Bayfront Parkway, making them ideally suited to retail and commercial uses, as proposed.

We have grouped the Development Districts proposed in the Master Plan, into 2 phases of development – Phase 1 being to the west of Sassafra and Phase 2 being to the east. The following table summarizes our recommended phasing plan, with buildings corresponding to those identified above (Figure 5-4).

Table 5 - 3

Bayfront Place - Proposed Development Program by District and Land Use							
District	Corresponding District(s)	Buildings	Retail (SF)	Office (SF)	Residential (SF)	Total (SF)	Comments
Phase 1	Waterfront District, Office District, Central Square, Sassafrss St (Part) + Main Street	A, B, C, D, E, F, G, H, I, J, K, L	67,838	76,292	177,443	321,573	Reduced retail in Central Square relative to Kidder Wachter plan.
Phase 2	Market District, Sassafrass St (Part) + Marina District	M, N, O, P	36,347	-	120,145	156,492	-
TOTAL			104,185	76,292	297,588	478,065	

Source: Johnson Consulting, Kidder Watcher

As shown, Phases 1 and 2 will comprise a total of 104,185 SF of retail space, 76,292 SF of office space, and 297,588 SF of residential space or approximately 200 units.

SECTION 6
FEASIBILITY ANALYSIS



FEASIBILITY ANALYSIS

This section presents projections of the financial performance of the proposed Bayfront Place project, including an examination that sets the stage to structure deals that are financially feasible as a real estate business providing space for lease by commercial tenants and for purchase and rent by residential occupants. The specific question to be addressed is: Will the project be feasible and yield attractive returns? It is noted that we have analyzed the project from a private developer’s perspective but with the key objective being to assess the value of the project that will be attained by the ECCCA. We have also calculated land value yield to the ECCCA.

The ECCCA has many tools at its disposal for funding the project, such as low cost bonds, free and clear land, below market land leases, with performance kickers, and a longer-term perspective than the private sector, among others. While it will be difficult to attract a developer to fund \$30+ million of equity, it is anticipated that multiple developers may be interested in purchasing specific parcels within the overall site.

DEVELOPMENT PROGRAM AND PROJECTIONS

As described in the preceding section of this report, and based upon our assessment of dynamics in the local marketplace, the following table summarizes our recommended development program, upon which our feasibility analysis is based.

Table 6 - 1

Bayfront Place - Erie, PA Proposed Development Program in SF			
	Phase I	Phase II	Total Build-Out
Year Open	Year 1	Year 5	
Land (acres)	10	6	16
Gross Size (SF)			
Retail	67,838	36,347	104,185
Office	76,292	-	76,292
For-Sale Condos	264,600	162,000	426,600
Rental Apartments*	61,050	55,500	116,550
Parking**	175,000	75,000	250,000
Total Development Area (SF)			973,627
Floor Area Ratio (FAR)			1.40
<i>* Assumes Buildings J and P are rental apartments (42 units total); 85 percent efficiency ratio.</i>			
<i>** Excludes existing 500 onsite parking spaces</i>			
<i>Source: Johnson Consulting</i>			

RETAIL

Our recommended development program includes approximately 104,185 gross SF of stand-alone and ground floor retail space. The following table summarizes our projections for the retail space, including key assumptions, over a 15-year projection period (assuming Year 1 is the first full year of operation of the project).

Table 6 - 2

Bayfront Place - Erie, PA Retail: 15 Year Projections (\$000 inflated)					
	Assumptions	Year 1	Year 5	Year 10	Year 15
Available SF (Net)	Efficiency Ratio 80%	54,270	83,348	83,348	83,348
Vacancy Rate	Current Market Rate upon Stabilization	12.0%	2.3%	2.3%	2.3%
SF Absorbed/ Leased		47,758	78,610	81,431	81,431
Revenues					
Rental Income	\$13.00 / SF (a) - \$15.00	\$659	\$1,251	\$1,461	\$1,744
Reimbursement Income (b)					
Common Area Maintenance	\$5.00 / absorbed SF	\$253	\$469	\$547	\$653
Taxes	\$2.00 / absorbed SF	\$101	\$188	\$219	\$261
Insurance	\$1.00 / absorbed SF	\$51	\$94	\$109	\$131
Total Revenues		\$1,064	\$2,002	\$2,336	\$2,790
Expenses (c)					
Reimbursable Expenses					
Common Area Maintenance	\$5.00 / available SF	\$288	\$498	\$560	\$669
Taxes	\$2.00 / available SF	\$115	\$199	\$224	\$267
Insurance	\$1.00 / available SF	\$58	\$100	\$112	\$134
Subtotal Reimb. Expenses		\$461	\$796	\$896	\$1,070
Non-Reimbursable Expenses					
General & Administrative	2.0% of total revenues	\$21	\$40	\$47	\$56
Marketing & Promotion	\$1.50 / available SF	\$86	\$149	\$168	\$201
TI/ Leasing Commission Reserve	\$0.50 / available SF	\$29	\$50	\$56	\$67
Reserve for Replacement	\$0.30 / available SF	\$17	\$30	\$34	\$40
Management Fee	4.0% of total revenues	\$43	\$80	\$93	\$112
Brokerage Fees (One-Time)	5.0% of rental revenues	\$33	\$21	\$0	\$0
Grand-Opening (One-Time)	\$0.50 / available SF	\$29	\$17	\$0	\$0
Subtotal Non-Reimbursable Expenses		\$258	\$388	\$398	\$475
Total Expenses		\$719	\$1,184	\$1,294	\$1,545
Net Operating Income (in \$000's)		\$345	\$818	\$1,042	\$1,245

(a) Assumes an increase of 10 percent in each subsequent Phase to reflect higher quality and improved market.

(b) Assumes tenants reimburse 100 percent of Common Area Maintenance, Insurance and Taxes, proportionately to size of leased space. Reimbursable expenses are estimated to total approximately \$10 per absorbed SF based upon current leases of premium retail space in the Erie market.

(c) Assumes expenses increase 3 percent annually.

Source: Johnson Consulting

As shown, the retail component is projected to achieve a net operating profit of \$345,000 in Year 1, increasing to \$818,000 in Year 5 based upon stabilized occupancy that reflects current vacancy rates in the local market, to \$1.0 million in Year 10, and to \$1.2 million in Year 15.

OFFICE

Our recommended development program includes approximately 76,292 gross SF of office space. The following table summarizes our projections for the office, including key assumptions, over a 15-year projection period (assuming Year 1 is the first full year of operation of the project).

Table 6 - 3

Bayfront Place - Erie, PA Office: 15 Year Projections (\$000 inflated)					
	Assumptions	Year 1	Year 5	Year 10	Year 15
Available SF (Net)	Efficiency Ratio 80%	61,034	61,034	61,034	61,034
Vacancy Rate	Current Market Rate upon Stabilization	30.0%	3.8%	3.8%	3.8%
SF Absorbed/ Leased		42,724	58,714	58,714	58,714
Revenues					
Rental Income	\$12.00 / SF (a) - \$15.00	\$1,020	\$1,577	\$1,775	\$2,120
Reimbursement Income (b)					
Common Area Maintenance	\$5.00 / absorbed SF	\$227	\$351	\$395	\$471
Taxes	\$2.00 / absorbed SF	\$91	\$140	\$158	\$188
Insurance	\$1.00 / absorbed SF	\$45	\$70	\$79	\$94
Total Revenues		\$1,382	\$2,138	\$2,407	\$2,874
Expenses (c)					
Reimbursable Expenses					
Common Area Maintenance	\$5.00 / available SF	\$324	\$364	\$410	\$490
Taxes	\$2.00 / available SF	\$130	\$146	\$164	\$196
Insurance	\$1.00 / available SF	\$65	\$73	\$82	\$98
Subtotal Reimb. Expenses		\$518	\$583	\$656	\$784
Non-Reimbursable Expenses					
General & Administrative	2.0% of total revenues	\$28	\$43	\$48	\$57
Marketing & Promotion	\$1.50 / available SF	\$97	\$109	\$123	\$147
TI/ Leasing Commission Reserve	\$10.00 / available SF	\$648	\$729	\$820	\$979
Reserve for Replacement	\$0.30 / available SF	\$19	\$22	\$25	\$29
Management Fee	4.0% of total revenues	\$55	\$86	\$96	\$115
Brokerage Fees (One-Time)	5.0% of rental revenues	\$51	\$0	\$0	\$0
Grand-Opening (One-Time)	\$0.50 / available SF	\$32	\$0	\$0	\$0
Subtotal Non-Reimbursable Expenses		\$930	\$988	\$1,112	\$1,328
Total Expenses		\$1,448	\$1,571	\$1,768	\$2,112
Net Operating Income (in \$000's)		(\$66)	\$567	\$638	\$762

(a) Assumes an increase of 10 percent in each subsequent Phase to reflect higher quality and improved market.

(b) Assumes tenants reimburse 100 percent of Common Area Maintenance, Insurance and Taxes, proportionately to size of leased space. Reimbursable expenses are estimated to total approximately \$10 per absorbed SF based upon current leases of Class A office space in the Erie market.

(c) Assumes expenses increase 3 percent annually.

Source: Johnson Consulting

As shown, the office component is projected to report a slight operating deficit of (\$66,000) in Year 1, reflecting conservative assumptions regarding initial vacancies, increasing to a profit of \$567,000 in Year 5 based upon stabilized occupancy that reflects current vacancy rates in the local market, to \$638,000 in Year 10, and to \$762,000 in Year 15.

FOR-SALE CONDOS

Our recommended development program includes 158 for-sale residential condos. The following table summarizes our projections for the condos (assuming Year 1 is the first full year of operation of the project, and that the condos are developed in Year 5, Year 10 and Year 15).

Table 6 - 4

Bayfront Place - Erie, PA For-Sale Condos: 15 Year Projections (\$000 inflated)					
	Assumptions	Year 1	Year 5	Year 10	Year 15
Number of Units		98	60	0	0
Absorbed Units	Pre-Opening: 40%; Post-Opening: 15%	39	24	0	0
Absorbed SF	1,500 /unit	58,800	36,000	0	0
Revenues					
Sales (a)	\$200.00 / SF (a)	\$12,850	\$10,626	\$0	\$0
Total Revenues		\$12,850	\$10,626	\$0	\$0
Expenses					
Sales Expenses		\$1,028	\$850	\$0	\$0
Total Expenses		\$1,028	\$850	\$0	\$0
Net Sales Income (in \$000's)		\$11,822	\$9,776	\$0	\$0

(a) Assumes an average size of 1,500 SF and an increase of 10 percent in each subsequent Phase to reflect higher quality and improved market.
Source: Johnson Consulting

Each phase of residential condos is assumed to have a 3-year absorption period inclusive of pre-sales. Net sales income is projected to be \$11.8 million in Year 1 and \$9.8 million in Year 5, with all condos assumed to be sold out by the end of Year 6. Total sales income is projected to amount to \$53.7 million throughout the 15-year projection period.

RENTAL APARTMENTS

Our recommended development program includes 42 residential rental apartments in Buildings J (Phase 1) and P (Phase 2). The following table summarizes our projections for the apartments, including key assumptions, over a 15-year projection period (assuming Year 1 is the first full year of operation of the project).

Table 6 - 5

Bayfront Place - Erie, PA Rental Apartments: 15 Year Projections (\$000 inflated)						
Assumptions		Year 1	Year 5	Year 10	Year 15	
Number of Units		18	37	40	40	
Vacancy Rate	Current Market Rate upon Stabilization	0.0%	20.0%	5.2%	5.2%	
# Units Rented		18	37	40	40	
Revenues						
Rental Income	\$1,400 / Unit monthly (a) - \$1,540	\$314	\$771	\$970	\$1,125	
Total Revenues		\$314	\$771	\$970	\$1,125	
Expenses						
Operating Expenses	45.0% of revenues	\$141	\$347	\$437	\$506	
Total Expenses		\$141	\$347	\$437	\$506	
Net Operating Income (in \$000's)		\$173	\$424	\$534	\$618	

(a) Assuming average size of 1,200 SF. Assumes 10 percent increase each subsequent Phase to reflect higher quality and improved market.

Source: Johnson Consulting

As shown, the rental apartment component of the project is projected to achieve a net operating profit of \$173,000 in Year 1, increasing to \$424,000 in Year 5, \$534,000 in Year 10, and \$618,000 in Year 15.

PARKING

Our recommended development program includes 1,500 car parking spaces, of which 500 spaces are existing onsite. These will be shared between residents, office workers, retail tenants and restaurant patrons. The following table summarizes our projections for the parking, including key assumptions, over a 15-year projection period (assuming Year 1 is the first full year of operation of the project).

Table 6 - 6

Bayfront Place - Erie, PA Parking: 15 Year Projections (\$000 inflated)						
Assumptions		Year 1	Year 5	Year 10	Year 15	
# Spaces Available & Absorbed		700	1,000	1,000	1,000	
Revenues						
Rental Income	\$2.50 /space daily (a) - \$4.80	\$682	\$1,290	\$1,452	\$1,734	
Total Revenues		\$682	\$1,290	\$1,452	\$1,734	
Expenses						
Operating Expenses	20.0% of revenues	\$145	\$308	\$390	\$556	
Total Expenses		\$145	\$308	\$390	\$556	
Net Operating Income (in \$000's)		\$537	\$982	\$1,062	\$1,177	

(a) Reflecting weighted average of rates amongst, \$70 per space monthly for residents, \$6 per space daily for office patrons, and free for retail patrons. Assumes 10 percent increase each subsequent Phase to reflect higher quality and improved market.

Source: Johnson Consulting

As shown, the parking component is projected to achieve a net operating profit of \$537,000 in Year 1, increasing to \$982,000 in Year 5, to \$1.1 million in Year 10, and to \$1.2 million in Year 15.

SUMMARY

The following table summarizes our projections for the proposed Bayfront Place project, over a 15-year projection period (assuming Year 1 is the first full year of operation of the project). It is anticipated that the ECCCA will act as land developer and sell an improved site(s). The analysis assumes ECCCA will not receive income from operations, so net operating income serves as the best indicator of the opportunity for, and feasibility of, a mixed-use development at Bayfront Place from a developer's perspective. Restated, the following table summarizes the level of income that a developer(s) could anticipate from the proposed project. It is noted that residential condos are excluded from the capital budget as those assets are sold and do not provide a steady stream of revenue and expenses. However, net profit from residential condos at Bayfront Place is included in the analysis.

Table 6 - 7

Bayfront Place - Erie, PA				
Summary of Projected Net Operating Income (\$000, inflated)				
Program Element	Year 1	Year 5	Year 10	Year 15
Retail	\$345	\$818	\$1,074	\$1,245
Office	(66)	567	657	762
Rental Apartments	173	424	534	618
Parking	537	982	1,081	1,177
Total	\$989	\$2,791	\$3,346	\$3,803
Profit from Condos*	\$1,773	\$1,466	\$0	\$0
Total incl. Profit from Condos	\$2,762	\$4,257	\$3,346	\$3,803

** Developer profit estimated at 15 percent of net sales income from condos*

Source: Johnson Consulting

As shown, the proposed development is projected to achieve a net operating income of \$989,000 in Year 1, increasing to \$2.8 million in Year 5, to \$3.3 million in Year 10, and to \$3.8 million in Year 15. When profits from the sale of residential condos are included, the developer(s) net income is projected to be \$2.8 million in Year 1 and \$4.3 million in Year 5, after which time the condos are assumed to be sold out.

ESTIMATED RETURN ON ASSETS

The following table summarizes preliminary estimated development costs for the proposed development. As the project is further considered and the building program is refined, these estimates should be revisited. We have not included an allowance from land development costs, given the preliminary nature of the project and uncertainty related to whether this cost will ultimately be borne by the developer(s) or the ECCCA.

Table 6 - 8

Bayfront Place - Erie, PA Proposed Development Program Estimated Cost (\$000)				
	Assumptions	Phase I	Phase II	Total Build-Out
Year Open		Year 1	Year 5	
Land (acres)		10	6	16
Land Basis	\$7,000			
Built Acres	6.40	4.0	2.4	6.4
Land Basis- Built Acres	\$1,094			
Retail	\$120 /SF	\$8,636	\$5,208	\$13,844
TI Allowance	\$70 /SF	\$4,749	\$2,544	\$7,293
Office	\$135 /SF	\$10,927	\$0	\$10,927
TI Allowance	\$70 /SF	\$5,340	\$0	\$5,340
For-Sale Condos	\$187,500 /Unit	\$19,494	\$13,433	\$32,927
Rental Apartments	\$126,000 /Unit	\$2,941	\$3,009	\$5,950
Parking	\$30,000 /Space	\$22,279	\$10,746	\$33,025
Subtotal		\$74,366	\$34,941	\$109,307
A&E Fees/ Ancillary Construction Costs	9%	\$6,693	\$3,145	\$9,838
Total		\$81,059	\$38,086	\$119,144
Soft Costs/ GC's/ Fees/ Insurance/ Contingency	20%	\$16,212	\$7,617	\$23,829
Total		\$97,271	\$45,703	\$142,973
	Total GSF	973,627		\$146.85
	Total Excluding For Sale Condos	\$71,772	\$28,132	\$99,905

Source: Johnson Consulting

In order to understand the attractiveness of the proposed development to a potential developer(s), the following table summarizes the estimated Return on Assets (ROA). In this case, given the desire of the ECCCA to understand the opportunity for the proposed Bayfront Place development and to also to estimate the value of the land equity, the ROA is considered to be a more appropriate measure than the more typical Internal Rate of Return (IRR). This is because the various sources of equity that the developer(s) may bring to the project ultimately does not affect the value of the project to the ECCCA.

Table 6 - 9

Bayfront Place - Erie, PA Cumulative Return on Assets Estimate (\$000)				
	Year 1	Year 5	Year 10	Year 15
Land (acres)	10.0	16.0	16.0	16.0
Built/ Developed Land (acres) (1)	4.0	6.4	6.4	6.4
For Rent Program Elements				
Built/ Developed Land (acres) (2)	2.2	3.6	3.6	3.6
Value of Land (3)	\$1,686	\$2,697	\$2,697	\$2,697
Development Cost (4)	71,772	99,905	99,905	99,905
Total Investment	\$73,458	\$102,601	\$102,601	\$102,601
Net Operating Cash Flow	989	2,791	3,346	3,803
Return on Assets - For Rent Program Elements	1.3%	2.7%	3.3%	3.7%
For Sale Program Elements				
Built/ Developed Land (acres) (5)	1.8	2.8	2.8	2.8
Value of Land	\$1,314	\$2,103	\$2,103	\$2,103
Total Investment**	\$1,316	\$2,106	\$2,106	\$2,106
Net Profit from Condos	\$1,773	\$1,466	\$0	\$0
Return on Assets - For Sale Program Elements	134.7%	69.6%	0.0%	0.0%
All Program Elements				
Built/ Developed Land (acres)	4.0	6.4	6.4	6.4
Value of Land	\$3,000	\$4,800	\$4,800	\$4,800
Development Cost	71,772	99,905	99,905	99,905
Total Investment	\$74,772	\$104,705	\$104,705	\$104,705
Net Operating Cash Flow	2,762	4,257	3,346	3,803
Return on Assets	3.7%	4.1%	3.2%	3.6%

1) Assumes program elements will cover 40 percent of total site

2) For rent program elements are assumed to account for 56 percent of acreage, based upon program SF and including all parking

3) Assumes average sale price of \$750,000 per acre

4) Includes A&E Fees/ Ancillary Construction Costs and Soft Costs/ GC's/ Fees/ Insurance/ Contingency; No allowance for Site Improvements

5) For sale program elements are assumed to account for 44 percent of acreage, based upon program SF; Assumes land is sold and assembled prior to development of condos in Phases 1 and 2

Source: Johnson Consulting

Key assumptions related to our ROA estimates include:

- SALES PRICE OF LAND** In the interest of providing the ECCCA with a broader understanding of the potential value of the land, the following table summarizes current asking prices for vacant land in downtown Erie. These lots are considerably smaller than the Bayfront Place site, reflecting a lack of available inventory of larger sites in the Erie market. Notwithstanding this, if a master developer cannot

be found, the 16 acres at Bayfront Place may be subdivided and sold in smaller parcels. Accordingly, the following properties are considered to be indicative of the land value of Bayfront Place.

Table 6 - 10

Current Asking Price for Vacant Land - Downtown Erie, PA				
Address	Size (Acres)	Price	Price per Acre	Notes
6 W 18th St	2.94	\$2,175,000	\$739,796	Partial city block bordered by three major thoroughfares: Peach, State and W. 18th Streets, Zoned C-2, Electricity/ Power, Water, Telephone, Cable, Gas/ Propane
1302 W 26th St	0.57	\$375,000	\$657,895	Corner lot with access from both W. 26th Street and Brown Avenue, Zoned C-2, Electricity/ Power, Water, Telephone, Cable, Gas/ Propane
2617 Peach St	1.10	\$749,000	\$680,909	Zoned C-4, Electricity/ Power, Water, Telephone, Cable, Gas/ Propane
AVERAGE			\$692,867	

* Located just outside downtown Erie but included because it is one of the larger available parcels in a desirable retail location
Source: LoopNet, Johnson Consulting

Our estimates assume an average sale price of approximately \$750,000 per acre for Bayfront Place, taking into account an 8 to 10 percent premium for the waterfront location, conservatively reflecting industry averages across the various land uses. This results in an estimated land value in the order \$13.0 million for the total 16 acre site. The cost of land by phase is calculated assuming that developed acreage will amount to 40 percent of the total site (6.4 acres cumulatively across all 4 phases of development). For the for-rent components of the development program (office, retail, rental apartments and parking), the built area is estimated to be 3.6 acres (or 54 percent of the total developed acreage), with a cumulative land value of \$2.7 million. The for-sale condos are estimated to total 2.8 acres of built acreage, with a cumulative land value of \$2.1 million across the 2 phases of development. The total value of the built acreage is projected to be \$4.8 million, cumulative over the 15-year projection period. It is recommended that an appraisal of the site be undertaken to understand its true market value.

- DEVELOPMENT COSTS:** Estimated based upon the costs presented in Table 6-8, by Phase, including A&E Fees/ Ancillary Construction Costs (9 percent of hard costs) and Soft Costs/ GC's/ Fees/ Insurance/ Contingency (20 percent of hard costs). No allowance is made for site improvements. Cumulative development costs for the for-rent components of the development program are projected to be \$99.0 million over the 15-year projection period. The condos are excluded from the capital budget because these assets are sold.

- **TOTAL INVESTMENT** The total investment by a developer(s) includes the cost of land plus development costs and for the for-rent components is estimated to be \$102.6 million and for the for-sale condos is projected to be \$2.1 million cumulative over the 15-year projection period. For both for-rent and for-sale elements, the cumulative investment is estimated to be \$104.7 million.

The ROA for the for-rent components of the development program is estimated to be 1.3 percent in Year 1, improving to 2.7 percent in Year 5, 3.3 percent in Year 10, and 3.7 percent in Year 15. For the for-sale condos, the ROA is estimated to be 134.7 percent in Year 1 and 69.6 percent in Year 5, at which time all condos are assumed to have been sold. The variation reflects the fact that the condos do not provide a steady stream of revenues and expenses. Across the 15-year projection period, the average ROA is 2.8 percent for the for-rent program elements, which is relatively low reflecting a relatively low-density building program on a high value site, and 51.1 percent for the for-sale condos.

Overall, the for-rent and for-sale program elements are estimated to achieve a ROA of 3.7 percent in Year 1, increasing to 4.1 percent in Years 5, before contracting to 3.2 percent in Year 10, and then increasing to 3.6 percent in Year 15, averaging 3.6 percent throughout the projection period. It is anticipated that developers would seek an ROA in the range of 8 to 10 percent and as such, the ECCCA may need to offer some form of incentive to potential developer(s).

SENSITIVITY ANALYSIS

The proposed Harbor Place development is similar in concept to the vision for Bayfront Place as described above, but on a slightly smaller scale, and without anchor retail to draw visitors to the site. Further, preliminary designs do not indicate the same level of thoughtfulness with respect to walkability and attractive outdoor public space. Notwithstanding this, if Harbor Place does proceed as anticipated, commencing imminently and built-out in full, it is anticipated that the two projects will compete with one another. The following table provides a comparison of the two projects, vis-à-vis our assessment of market capacity.

Table 6 - 11

Bayfront Place and Harbor Place Proposed Development Programs and Market Potential - Erie, PA						
Land Use	Bayfront Place	Harbor Place	Total	Market Supportable	Over/ (Under) Supply	Absorption Pace
Retail (SF)	104,000	30,000	134,000	170,000 (a)	(36,000)	2-3 Years
Office (SF)	76,000	100,000	176,000	140,000 (b)	36,000	3-4 Years
Residential (Units)	200	150	350	60-70 p.a. (c)	N/A	6-7 Years

(a) Based upon 2014 Master Plan; Downtown marketwide potential; Smaller ground floor retail may take longer to absorb.

(b) Market supportable SF based upon average absorption over recent years; Absorption assumes pre-commitment by large tenancies.

(c) 2014 Master Plan projects absorption of 50-60 units p.a.; Based upon absorption trends over recent years, coupled with the proposed higher-quality of proposed units, with water views, conservatively assume faster absorption pace.

Source: CoStar, 2014 Downtown Erie Master Plan, Johnson Consulting

While it is our considered opinion that there is capacity in the market for both projects, if Harbor Place proceeds, absorption of new space could be slower and this will necessitate careful consideration of timing for Bayfront Place.

The following table shows the estimated net operating income of the proposed Bayfront Place project, based upon the assumption that Harbor Place is developed concurrently, and reflecting the impact on absorption pace of retail, office and residential space.

Table 6 - 12

Bayfront Place with Harbor Place - Erie, PA Summary of Projected Net Operating Income (\$000, inflated)				
Program Element*	Year 1	Year 5	Year 10	Year 15
Retail	\$257	\$728	\$1,011	\$1,172
Office	(333)	532	616	714
Rental Apartments	151	397	526	610
Parking	537	982	1,081	1,177
Total	\$612	\$2,638	\$3,235	\$3,674
Without Competition	\$989	\$2,791	\$3,346	\$3,803
Variance	(\$377)	(\$153)	(\$111)	(\$129)

* Excludes for-sale condos

Source: Johnson Consulting

As shown, in Year 1, competition from Harbor Place is projected to decrease the net operating income of Bayfront Place by (\$377,000), primarily due to slower absorption of office space, although it is noted that pre-tenant commitments would minimize this risk. Over a 15-year period, the impact will ultimately stabilize as the project and associated activities become established in the marketplace. This reflects our opinion that the market has capacity to absorb both projects. It is noted that, in the interest of simplifying our model, we have made no adjustment to the timing of Bayfront Place, which could be adjusted to help mitigate any negative impacts of the adjacent development.

As it relates to the condos, absorption is projected to extend out approximately 1-2 years, with the impact of this marginalized by the relatively small number of condos. If, however, competition required a reduction in price points to increase sales, and/ or offering additional incentives, this could have a significant impact on the projected income from condo sales.

VALUE TO THE ECCCA

The above analysis is a thoughtful but simple assessment of cash flows and exposure associated with the proposed project. It is noted that there is a myriad of variables that need to be considered at a later date and these will ultimately impact the economics of the project. Overall, we see potential for a highly attractive and successful project at Bayfront Place that has many potential benefits to the ECCCA:

1. Development of Bayfront Place will enhance the gateway and surrounds of the BCC and has potential to add to the overall appeal of the facility, as well as the adjoining hotel properties.
2. The recommended development program responds to a number of key objectives of the Erie Downtown Master Plan. Specifically, Bayfront Place will improve the overall physical environment, pursue economic development opportunities, and increase the supply of market-rate housing. This will help to grow the resident population of the local area.
3. New development will generate tax revenues that are shared with the ECCCA.

As discussed above, the ECCCA is not expected to serve as the developer of Bayfront Place and as such, the key source of revenues from the project will be from the sale of the land, likely in subdivided parcels, although it is highly encouraged that a master developer for the entire 16 acres be sought.