



Otsego County Press Release

803 South Otsego Ave Property (former Royal Crest Motel)

August 17, 2020

The Otsego County Board of Commissioners has approved the demolition of the former Royal Crest Motel structure located at 803 South Otsego Ave in Gaylord, MI. Additionally, after a presentation of the in-depth market and site assessment study conducted by Place + Main Advisors, LLC, the Commissioners approved a motion to direct the County Administrator to “further explore the options presented by Place + Main by engaging with the community and work with potential developers, in keeping with the results of the site assessment study”.

Acquisition of the former Royal Crest Property by Otsego County:

In June of 2018, the Otsego Board of Commissioners exercised its right of refusal and acquired the former Royal Crest Motel through the tax foreclosure process. The property, located in the heart of downtown Gaylord, is approximately 2.04 acres in size. In addition to being foreclosed upon, the property had fallen into a state of significant disrepair.

With the acquisition of this property, the County first analyzed it to determine whether it would have a potential public purpose, due to its proximity to the downtown County Building. Further research showed that the property was not suited for the public purpose the county was considering at that time.

Market and Site Assessment Study:

Rather than make decisions about the future of this property in a vacuum, the Otsego County Board of Commissioners elected to engage with the economic development firm Place + Main Advisors, LLC to conduct an in-depth market and site assessment to determine possible market-based options for future redevelopment of the property. The Place + Main study recommends two options for the redevelopment of the site: (1) a market rate mixed-use business development (commercial use on first floor, apartments on second floor); or (2) a market-rate multi-family housing development (apartments).

“Since the county has determined that it does not have a public use for this property, there is no need for the county to continue to own it. It’s a better use to get that property back in business as an important part of our local economy.”

~Otsego County Commissioner and Chairman of the Budget and Finance Committee Ken Glasser

“There is major community support for this. This property is located in the heart of what years ago used to be an important commercial district in the City of Gaylord. Community efforts are being made to breathe new life into the South Otsego Avenue corridor.”

~Chairman of the Otsego County Board of Commissioners Ken Borton

Extensive additional information regarding the former Royal Crest Motel property, along with the site assessment report, is available on the Otsego County website www.otsegocountymi.gov

FORMER ROYAL CREST MOTEL PROPERTY

PROJECT SUMMARY

This project involves the demolition of the former Royal Crest Motel located in the downtown area of the City of Gaylord in Otsego County, Michigan. The property was tax-reverted to Otsego County in 2018. The site consists of an approximately 20,000 ft² main hotel building, a 3,300 ft² secondary motel building, and an 800 ft² spa/sauna/game room (Figure 1). The motel and related outbuildings were condemned and deemed uninhabitable by the Otsego County Building Department.



Figure 1. Aerial layout of the former Royal Crest Motel

DETAILED PROJECT DESCRIPTION

In June of 2018, the Otsego Board of Commissioners exercised its right of refusal and acquired the former Royal Crest Motel, located at 803 S Otsego Ave (Parcel Number: 101-104-000-475-05), through the tax foreclosure process (Figure 2). The property, located in the heart of downtown Gaylord, is approximately 2.04 acres in size. The full-scale motel had been foreclosed upon in accordance with the General Property Tax Act. Furthermore, the property had fallen into a state of significant disrepair.

The Royal Crest Motel property has a storied past. Historic information indicates that the parcel was a vacant field until the 1940s, at which time a gasoline service station and tourist cabins were built. The tourist cabins were demolished in the 1960s and were replaced with a single motel building. The motel and service station underwent numerous renovations between 1970-1980, including the conversion of the service station into a motel office, and then later into a spa/sauna/game room. In the early 1980s the original motel building was demolished and replaced with a new motel building, owner's residence, and pool. This motel and the related outbuildings as they currently exist have been deemed uninhabitable and were condemned by the Otsego County Building Department.

With the acquisition of this property, the County decided to take charge of the redevelopment process. The County was able to successfully secure a Brownfield Redevelopment Grant through the Michigan Department of Environment, Great Lakes, and Energy (EGLE – formerly the DEQ) in early spring of 2019. These funds were used to pay for Phase I and Phase II Environmental Site Assessments of the property. The Phase I Assessment documented soil/groundwater impacts from the former use of the property as a gasoline station and also observed evidence of water intrusion, mold, and unsanitary conditions in the on-site buildings. The Phase II Environmental Site Assessment was completed December 2019 to evaluate the potential environmental ramifications from the soil and groundwater impacts identified in the Phase I assessment. Based on the results of the Phase II, it does not appear that soil and groundwater impacts remain on the site. The Phase II assessment concluded that no further assessment activities of the underground storage tank (UST) systems and disturbed soils/areas of fill appear warranted at this time.

Due to the intended demolition of the site buildings, an asbestos and lead-based paint survey was completed. The asbestos survey identified vermiculite insulation in two separate locations and window caulk (a Category II non-friable ACM) as asbestos containing materials. The lead exposure limits as set by Housing & Urban Development (HUD) are 5,000 ppm. All of the paint samples collected fall below that limit and are not considered lead-based paint.

This property is not located in a historic district nor listed in the National Register of Historic Places.

Given the magnitude and complexity of the demolition project, Otsego County made the decision to have a professional engineer prepare demolition plans of the motel and outbuildings. The County contracted with C2AE, a local civil engineering firm, to have this done. These drawings, including photos and detailed building information, are located in Appendix A.

Rather than make decisions about the future of this property in a vacuum, the Otsego County Board elected to engage with the economic development firm Place + Main Advisors, LLC to conduct an assessment of the site to determine possible market-based options for future redevelopment of the property (Appendix B). The study recommended two options for the redevelopment of the site: (1) a market rate mixed-use business development (commercial use on first floor, apartments on second floor); or (2) a market-rate multi-family housing development (apartments). This study is discussed in more detail in the redevelopment section of this application.

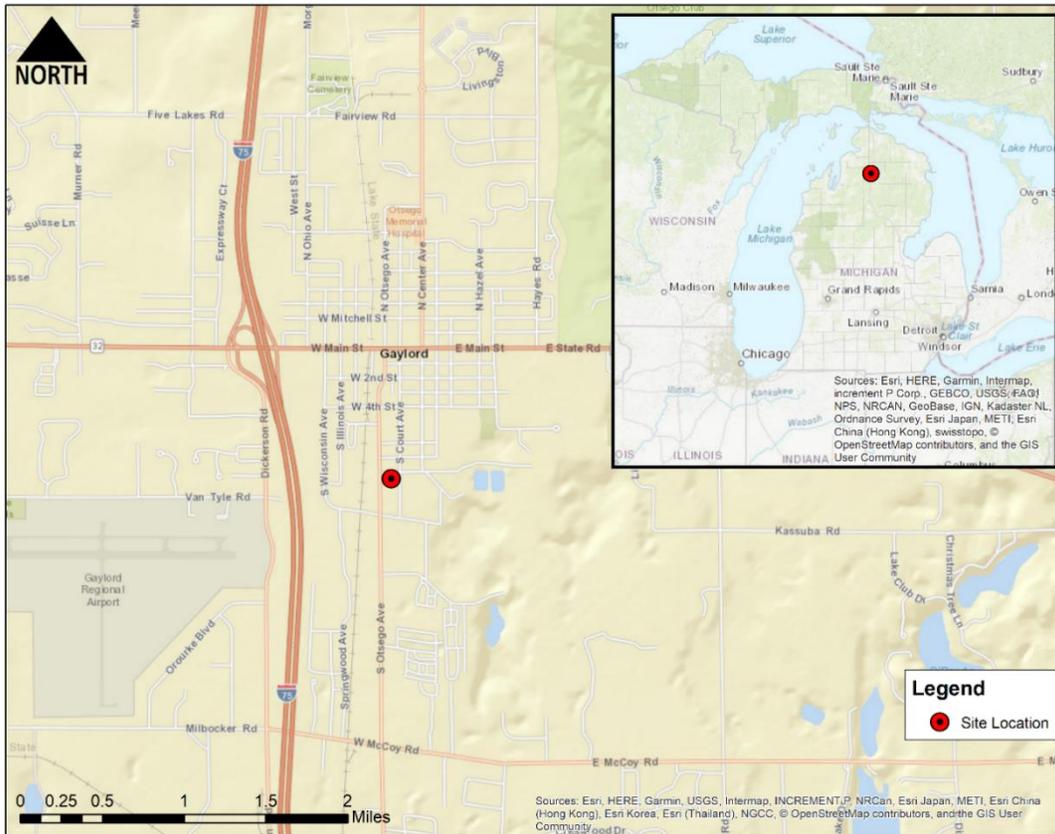


Figure 2. Location of the Royal Crest Motel.

PUBLIC SAFETY

Demolition of the former Royal Crest Motel would dramatically improve area public safety. As discussed in more detail below, the area in which the property is located has come under blight in recent years. The abundance of vacant buildings in the area has attracted crime, and drug use, and trespassers.

In addition to problems with trespassing and criminal activity, the Otsego County Building Department condemned the building and deemed it uninhabitable. This was done due to the extensive mold and water damage problems, as well as potential issues with the structural integrity of the buildings.

The property is also located approximately two blocks west of Gaylord Intermediate School which houses 713 students, grades 3rd – 6th. The Gaylord Middle School, which has 475 students grades 7th-8th, is located four blocks east of the Royal Crest. The demolition of this property would ensure the safety of these students.

As discussed below, the Royal Crest is located in the heart of downtown Gaylord in a formerly key business district. It is hoped that the demolition of these buildings will help promote future business growth in the area.

ECONOMIC DEVELOPMENT OPPORTUNITIES

The central business corridor extending south of M-32 in the City of Gaylord along the I-75 Business Loop, where this project is located, was formerly a key business corridor. In recent years however, nearly all business expansion has been focused on the M-32 corridor west of I-75 (Figure 3). This has resulted in a significant decline in both the number of new and existing businesses operating in the corridor where the subject property is located. This decline in business occupation has driven many of the commercial properties in the area into a state of blight, further dissuading any new business growth. It is hoped that through thoughtful planning and redevelopment of the site, it can promote revitalization of the area by pulling the corridor out of its negative growth feedback loop. The corridor's similarities in layout to the existing "traditional" downtown layout of the City of Gaylord's M-32 corridor make it an ideal candidate for traditional downtown expansion. The development of this property is thought of as a first step towards that goal.



Figure 3. Former and existing land-use corridors in the City of Gaylord.

As discussed previously in the Project Description section of this document, Otsego County engaged with the economic development firm Place + Main Advisors, LLC to conduct an assessment of the site to determine possible market-based options for future redevelopment of the property (Appendix B). The report included evaluation of the following factors: (1) Current & Projected Retail Gap Analysis; (2) Maximum Potential Supportable Square Footage (Retail); (3) Market Segmentation; (4) Competing

Commercial Areas; (5) Traffic Count; (6) Zoning & Surrounding Land Use Analysis; (6) Recent Market Analyses; (7) Current Construction Costs; and (8) Current Lease Rates.

Place and Main provided two recommendations for the future development of the site:

1. **Market-Rate Mixed-Use:** A multi-floor building or buildings with commercial on the first floor targeting locally-owned businesses or potentially live/work units. Three to four floors of market-rate residential apartments would be above. This would be the highest and best use of the site as it would still contribute to the retail/commercial nature of the district, but also address the need for market-rate housing in the area. Having residential units above the retail/commercial first floor would also provide a built-in customer base for potential businesses in addition to those living in the nearby R-2 zoning district.
2. **Market-Rate Multi-Family:** The largest question for the redevelopment of the site is whether the commercial real estate market sector is strong enough to absorb new commercial space in this area. If it is not, there is more than sufficient need for additional market-rate rental housing. In this case, using the site as a strictly multi-family residential would be recommended. Under current zoning the site could house two story buildings, but three to four would be recommended.

Both proposed uses increase the density on the site, and would both significantly address a critical need in the community as well as dramatically increase tax revenue from the site. Being able to maintain infrastructure in and around the site long-term is a major consideration and maximizing the revenue generation of the site is a major consideration.

LOCAL SUPPORT AND ADDITIONAL INVESTMENT

There exists an abundance of community support for the proposed project. As discussed previously, the location at which the Royal Crest is located was previously the City of Gaylord's main commercial district. This was once a vibrant and thriving commercial area which contained Otsego County's largest businesses and employers. The construction of box stores on the West side of I-75 between 1990 and 2010 drove many new and existing businesses away from this area, leaving it in a state of blight. However, Gaylord being the small-town "up-north" community that it is, still holds fond memories of this once bustling corridor. Community efforts are being made, in addition to the proposed project, to breathe new life into the district. These include the movement of Jay's Sporting Goods into the former K-mart building, renovation of the Otsego County Library, construction of the Iron Belle Trail which passes through the area, and a new multi-family housing complex. In addition, Otsego County is seeking millage funding for the construction of an approximately \$30 million Justice Complex. This project would involve construction of a new professional building that would house the Otsego County Sheriff's Department, District and Circuit Courts, and all court related departments. This Complex would be constructed on a 9-acre parcel directly across the street from the Royal Crest. It is hoped that in addition to the above described projects, that the demolition of this blighted motel will spur growth in the area.

Otsego County’s commitment to the project is evident in the amount of funds that have already been allocated. Otsego County’s matching contributions to date are detailed in Table 1 below.

Table 1. Detailed expenditures to date for the Royal Crest property incurred by Otsego County.

Description	Amount
Phase I & Phase II Environmental Assessment (grant-funded)	\$50,000.00
Site Redevelopment Study	\$8,500.00
Site Safety Precautions (board up windows, barricades, etc.)	\$9,425.00
Engineered Demolition Plans	\$2,600.00
Total:	\$70,525.00

SITE REDEVELOPMENT PLANS

This site is intended to become part of a brownfield redevelopment plan. Due to the lack of brownfield projects, the Otsego County Brownfield Authority does not currently prepare a county-wide brownfield plan. Plans are prepared and approved by the Brownfield Authority on a project by project basis. Otsego County intends to submit a Brownfield Plan, which will include the all demolition and related activities, to the Otsego County Brownfield Authority upon final completion of the engineered demolition plans and final review of Place and Main Advisor’s redevelopment recommendations by the Otsego County Board of Commissioners.

PROJECT BUDGET AND TIMELINE

Along with the provision of demolition plans, C2AE (engineering firm) also prepared an estimated project budget. This is detailed as follows:

Item Description	Estimated Quantity	Unit	Unit Price	Total Price
Mobilization, Max 10%	1	LSUM	\$45,000.00	\$45,000.00
Remove Site Concrete	650	SYD	\$7.00	\$4,600.00
Crush Existing HMA Parking	3,600	SYD	\$2.50	\$9,000.00
Remove Main Floor Building	27,900	SFT	\$12.00	\$334,800.00
Remove Second Floor Building	9,000	SFT	\$10.00	\$90,000.00
Misc Utility Removals	1	LSUM	\$10,000.00	\$10,000.00
TOTAL:				\$493,400.00

Of the \$493,350.00 total cost, after exhaustion of any available grant funds, Otsego County has approved to fund any deficient remaining amount through the Tax Foreclosure Fund.

The demolition project was put out to bid by Otsego County in August 2020, with an estimated completion deadline of December 1st, 2020.

SUMMARY

Redevelopment of this property would greatly aid the community efforts to help pull a once bustling business district out of its negative growth feedback loop. As touched on above, this district is an ideal candidate for traditional downtown expansion; the already established “main street” layout could be extended south to this area. This could be accomplished through projects such as this; slowly improving properties in the corridor into compatible land-uses with the existing downtown district to the north in an effort to provide a natural continuation of the “main street” layout.

APPENDIX A: ENGINEERED DEMOLITION PLANS AND SPECIFICATIONS



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 Gaylord, MI 49735
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OTSEGO COUNTY
Royal Crest Motel Demolition
Opinion of Probable Construction Costs

Item #	ITEM DESCRIPTION	Estimated Quantity	Item Unit	Unit Price	Total Price
B1	Mobilization, Max 10%	1	LSUM	\$45,000.00	\$45,000.00
B2	Remove Site Concrete	650	SYD	\$7.00	\$4,550.00
B3	Crush Existing HMA Parking	3,600	SYD	\$2.50	\$9,000.00
B4	Remove Main Floor Building (includes pool)	27,900	SFT	\$12.00	\$334,800.00
B5	Remove Second Floor Building	9,000	SFT	\$10.00	\$90,000.00
B6	Misc Utility Removals	1	LSUM	\$10,000.00	\$10,000.00
SUBTOTAL=					\$493,350.00
CONTINGENCY INCLUDED IN SFT COST=					\$0.00
TOTAL=					\$493,400.00

APPENDIX B: PROPERTY REDEVELOPMENT STUDY



REAL ESTATE SITE ASSESSMENT

Royal Crest Motel (former)
803 S Otsego Ave
Gaylord, MI 49735

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BACKGROUND



SITE HISTORY

In June of 2018, the Otsego Board of Commissioners purchased the former Royal Crest Motel, located at 803 S Otsego Ave, also known as the I-75 Business Loop, through tax foreclosure. The property, approximately 2.04 acres in size with a full-scale motel, had become delinquent on taxes with no immediate hope of payment or sale of the site to another operator. Furthermore, the property had fallen into a state of disrepair making its reopening even more unlikely.

With the purchase of this property, the County decided to take charge of the redevelopment process. Rather than make decisions about the future of this property in a vacuum, the Board elected to engage with the economic development firm Place + Main Advisors, LLC to conduct an assessment of the site to determine possible market-based options for the site. This report contains the full evaluation of the property with the following factors in mind:

- Current + Projected Retail Gap Analysis
- Maximum Potential Supportable Square Footage (Retail)
- Market Segmentation
- Competing Commercial Areas
- Traffic Count
- Zoning + Surrounding Land Use
- Recent Market Analyses
- Current Construction Costs
- Current Lease Rates

These factors are consistent with private sector analyses and use many of the same data sources.

Furthermore, this report's final recommendations also consider public sector considerations such as potential for future taxable revenue and the potential need for incentives.

This report also includes an appendix which includes all demographic, retail, and other data used in the creation of this document.

For more information on this site interested parties can contact:

Christopher Churches
Director of Planning & Zoning, Capital Projects & Grants
Otsego County
cchurches@otsegocountymi.gov
Administration Office: 989-731-7515
Land Use Office: 989-731-7408

RETAIL GAP ANALYSIS + PROJECTED GROWTH

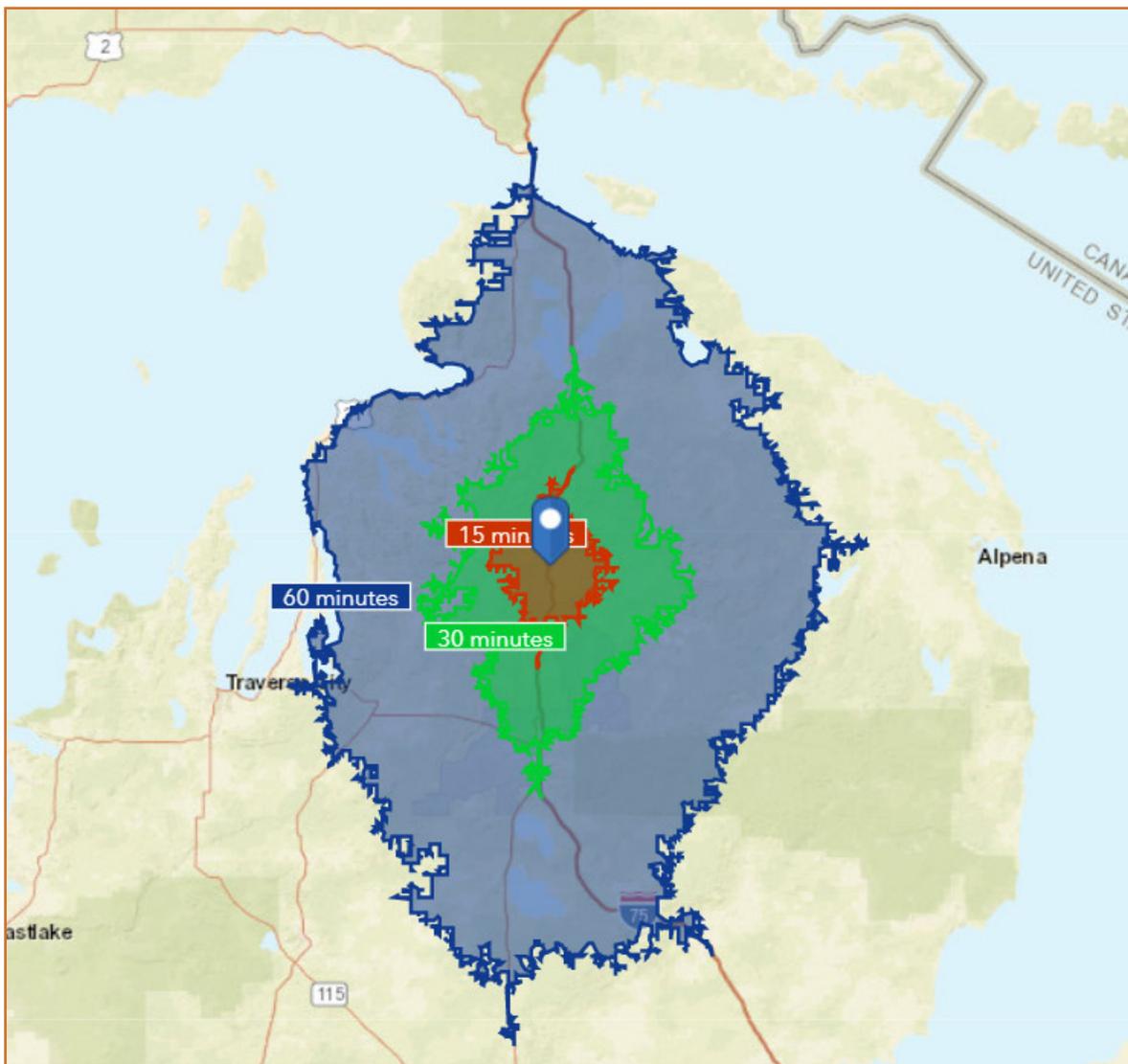
When an area's demand for retail goods and services does not match the supply, it creates what is called a Retail Gap. If there is more supply than demand in a geographic area, then one of two things (or a combination of the two) are occurring:

- 1) There may be a strong enough draw from a specific retailer/service provider or group of them that brings in additional from customers from outside the defined area and/or
- 2) there is an over-supply of a business type.

Conversely, if there is more demand for a good or service than what exists in the area's supply, a gap (or leakage) is created. This leakage is money that leaves the area to spend in another area because the particular good or service is not available within the defined area. This leakage is the best potential source for the types of additional businesses the area may need. *The presence of a gap is not a guarantee of success for prospective businesses.*

Additionally, retail markets rarely stay the same over time. Some areas grow while others shrink. As a community seeks to help existing businesses expand and attract new, having an understanding of which areas are growing or shrinking is important to know.

The retail information herein is drawn from multiple sources, including Claritas and ESRI, with further extrapolation and interpretation by Place + Main Advisors, LLC.



The map above is an approximation of estimated 15-, 30-, and 60-Minute drive times from the site.

Trade Areas + Drive Times

To properly evaluate the retail market in the area, we need to determine what a reasonable trade area is. Through our research, it was determined the appropriate trade areas would follow “drive times,” or the estimated amount of time it would take to drive to the site from various places.

Primary- (15-Minute Drive Time) These are the demographics of people who either do or could interact with the site on a daily basis. They live and work near by.

Secondary- (30-Minute Drive Time) These are people who live within what would be considered a reasonable drive for the area for shopping/dining. They likely commute >30 mins or more to work. Their trips to the site may not be daily, but could be 1-3 times a week.

Tertiary- (60-Minute Drive Time) The Gaylord area has a higher than average tertiary drive time due to the rural nature of northern Michigan. These are people who might visit the area one a week but also may shop/dine in Traverse City, Alpena, Grayling, or even Clare. This is the largest area, but also the most competition.

RETAIL GAP + PROJECTED GROWTH

Below are charts outlining the existing supply and demand (2019) and the resulting gap as well as the projected demand and gap (2024), assuming supply does not change. Numbers in parentheses denote a negative gap.

15-Min Drive Time	2019 Demand	2019 Supply	Existing Gap	2024 Demand	2019-24 Growth	Projected Gap
Total retail trade including food and drink (NAICS 44, 45 and 722)	\$300,916,473	\$639,453,390	(\$338,536,917)	\$330,670,517	\$29,754,044	(\$308,782,873)
Total retail trade (NAICS 44 and 45)	\$272,724,876	\$588,182,919	(\$315,458,042)	\$299,333,507	\$26,608,631	(\$288,849,412)
Total food services and drinking places (NAICS 722)	\$28,191,597	\$51,270,471	(\$23,078,875)	\$31,337,010	\$3,145,413	(\$19,933,461)

30-Min Drive Time	2019 Demand	2019 Supply	Existing Gap	2024 Demand	2019-24 Growth	Projected Gap
Total retail trade including food and drink (NAICS 44, 45 and 722)	\$637,305,893	\$880,869,263	(\$243,563,370)	\$699,307,885	\$62,001,992	(\$181,561,378)
Total retail trade (NAICS 44 and 45)	\$578,466,246	\$804,816,685	(\$226,350,439)	\$633,963,152	\$55,496,906	(\$170,853,533)
Total food services and drinking places (NAICS 722)	\$58,839,647	\$76,052,578	(\$17,212,931)	\$65,344,733	\$6,505,086	(\$10,707,845)

60-Min Drive Time	2019 Demand	2019 Supply	Existing Gap	2024 Demand	2019-24 Growth	Projected Gap
Total retail trade including food and drink (NAICS 44, 45 and 722)	\$3,060,586,603	\$3,065,972,579	(\$5,385,976)	\$3,351,612,540	\$291,025,937	\$285,639,961
Total retail trade (NAICS 44 and 45)	\$2,777,041,301	\$2,758,172,109	\$18,869,192	\$3,037,318,563	\$260,277,261	\$279,146,454
Total food services and drinking places (NAICS 722)	\$283,545,302	\$307,800,470	(\$24,255,168)	\$314,293,977	\$30,748,676	\$6,493,507

MAXIMUM SUPPORTABLE SQUARE FOOTAGE

Based on the gap analysis performed, over 60 retail and food and drink sectors were analyzed. This analysis included measuring the gap compared to national sales per square foot averages for each sector. This resulted in the data below outlining which sectors, by drive time, have the greatest potential for success and the maximum amount of commercial square feet each could potentially support.

15-Minute Drive Time

CATEGORY	2019 DEMAND (\$)	2019 SUPPLY (\$)	2019 GAP	2024 DEMAND (\$)	PROJECTED GAP	PROJECTED MAX. SQ FOOTAGE
Tire dealers (NAICS 44132)	\$2,892,723	\$48,263	\$2,844,460	\$3,055,424	\$162,701	12,077
Furniture stores (NAICS 4421)	\$2,424,182	\$0	\$2,424,182	\$2,681,796	\$2,681,796	8,252
Electronics stores (NAICS 443142)	\$3,691,905	\$1,902,261	\$1,789,644	\$3,974,988	\$2,072,727	4,224
Supermarkets and other grocery (except convenience) stores (NAICS 44511)	\$30,817,818	\$28,657,512	\$2,160,306	\$34,141,970	\$5,484,458	68,284
Food service contractors (NAICS 72231)	\$1,980,960	\$202	\$1,980,758	\$2,200,940	\$2,200,738	11,005

Source: Claritas, Place + Main Advisors, LLC

MAXIMUM SUPPORTABLE SQUARE FOOTAGE (CONT.)

30-Minute Drive Time

CATEGORY	2019 DEMAND (\$)	2019 SUPPLY (\$)	2019 GAP	2024 DEMAND (\$)	PROJECTED GAP	PROJECTED MAX. SQ FOOTAGE
Tire dealers (NAICS 44132)	\$6,213,470	\$1,540,373	\$4,673,097	\$6,542,719	\$5,002,346	25,861
Furniture stores (NAICS 4421)	\$4,994,327	\$12	\$4,994,314	\$5,530,250	\$5,530,238	17,016
Home furnishings stores (NAICS 4422)	\$5,993,625	\$3,503,874	\$2,489,751	\$6,596,413	\$3,092,539	20,297
Hardware stores (NAICS 44413)	\$3,061,322	\$1,982,955	\$1,078,367	\$3,360,310	\$1,377,355	24,350
Supermarkets and other grocery (except convenience) stores (NAICS 44511)	\$66,043,546	\$47,155,027	\$18,888,519	\$72,868,053	\$25,713,026	145,736
Pharmacies and drug stores (NAICS 44611)	\$31,539,865	\$21,470,139	\$10,069,726	\$34,832,590	\$13,362,451	56,091
Family clothing stores (NAICS 44814)	\$9,205,491	\$6,783,387	\$2,422,104	\$9,385,461	\$2,602,074	40,806
Shoe stores (NAICS 4482)	\$3,309,448	\$1,915,843	\$1,393,605	\$3,614,412	\$1,698,569	12,048
Department stores (NAICS 4522)	\$14,242,335	\$6,280,820	\$7,961,515	\$15,239,703	\$8,958,883	138,543
Pet and pet supplies stores (NAICS 45391)	\$4,570,678	\$602,468	\$3,968,210	\$5,576,418	\$4,973,950	17,988
Coffee shops (NAICS 7225155)	\$1,587,463	\$231,656	\$1,355,806	\$1,761,371	\$1,529,715	4,403

Source: Claritas, Place + Main Advisors, LLC

MAXIMUM SUPPORTABLE SQUARE FOOTAGE (CONT.)

60-Minute Drive Time

CATEGORY	2019 DEMAND (\$)	2019 SUPPLY (\$)	2019 GAP	2024 DEMAND (\$)	PROJECTED GAP	PROJECTED MAX. SQ FOOTAGE
Home furnishings stores (NAICS 4422)	\$29,935,892	\$26,765,473	\$3,170,420	\$33,103,352	\$6,337,879	30,037
Electronics stores (NAICS 443142)	\$37,599,499	\$8,957,466	\$28,642,033	\$40,478,582	\$31,521,116	33,497
Supermarkets and other grocery (except convenience) stores (NAICS 44511)	\$319,251,492	\$283,122,861	\$36,128,631	\$350,197,903	\$67,075,042	134,150
Beer, wine, and liquor stores (NAICS 4453)	\$23,371,397	\$12,317,859	\$11,053,538	\$25,677,294	\$13,359,435	12,145
Pharmacies and drug stores (NAICS 44611)	\$155,253,317	\$127,101,931	\$28,151,385	\$170,844,252	\$43,742,321	70,552
Cosmetics, beauty supplies, and perfume stores (NAICS 44612)	\$11,734,016	\$3,879,136	\$7,854,880	\$12,929,308	\$9,050,172	14,597
Optical goods stores (NAICS 44613)	\$8,893,266	\$1,491,079	\$7,402,187	\$9,781,792	\$8,290,713	13,372
Other health and personal care stores (NAICS 44619)	\$12,997,225	\$6,672,213	\$6,325,012	\$14,317,581	\$7,645,368	12,331
Family clothing stores (NAICS 44814)	\$44,080,337	\$21,479,133	\$22,601,204	\$44,846,527	\$23,367,394	101,597
Shoe stores (NAICS 4482)	\$15,451,838	\$7,047,202	\$8,404,636	\$16,832,797	\$9,785,595	32,619
Department stores (NAICS 4522)	\$68,607,244	\$25,125,334	\$43,481,910	\$73,250,828	\$48,125,494	437,504
Pet and pet supplies stores (NAICS 45391)	\$21,349,079	\$2,115,182	\$19,233,897	\$25,893,179	\$23,777,997	76,703
Limited-service restaurants (NAICS 722513)	\$102,932,443	\$95,130,513	\$7,801,930	\$113,999,354	\$18,868,841	94,344

Source: Claritas, Place + Main Advisors, LLC

MARKET SEGMENTATION

As important as knowing what an area's retail gap is, understanding its market segmentation is equally valuable. Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations. Tapestry is a tool created by data firm ESRI to provide an accurate, detailed description of America's neighborhoods—U.S. residential areas are divided into 67 distinctive segments based on their socioeconomic and demographic composition—then further classifies the segments into LifeMode and Urbanization Groups. The charts below outline the largest Tapestry segmentations in each drive time radius. The full profiles are included in Appendix A.

15-Minute Drive Time

Segment	% of Population
Small Town Simplicity (12C)	30.5%
Salt of the Earth (6B)	28.2%
Rural Resort Dwellers (6E)	23.8%
Green Acres (6A)	5.7%
Rooted Rural (10B)	4.1%
The Great Outdoors (6C)	4.0%
Down the Road (10D)	3.5%
Prairie Living (6D)	0.3%

30-Minute Drive Time

Segment	% of Population
Rural Resort Dwellers (6E)	26.4%
Salt of the Earth (6B)	21.1%
Small Town Simplicity (12C)	17.5%
Rooted Rural (10B)	15.3%
The Great Outdoors (6C)	7.0%
Green Acres (6A)	3.0%
Heartland Communities (6F)	2.1%
Prairie Living (6D)	1.9%
Traditional Living (12B)	1.8%
Down the Road (10D)	1.7%
Midlife Constants (5E)	0.9%
Silver & Gold (9A)	0.9%
Rural Bypasses (10E)	0.5%

60-Minute Drive Time

Segment	% of Population
Rural Resort Dwellers (6E)	34.1%
Salt of the Earth (6B)	10.3%
Rooted Rural (10B)	8.3%
Senior Escapes (9D)	7.9%
Small Town Simplicity (12C)	7.7%
The Great Outdoors (6C)	5.8%
Green Acres (6A)	5.2%
Heartland Communities (6F)	4.6%
Old and Newcomers (8F)	3.7%
Southern Satellites (10A)	3.4%
Traditional Living (12B)	2.3%
Silver & Gold (9A)	2.0%
Midlife Constants (5E)	1.4%

MARKET SEGMENTATION (CONT.)

Below are the top three segmentations for the 15-and 30-Minute Drive Time Radii.

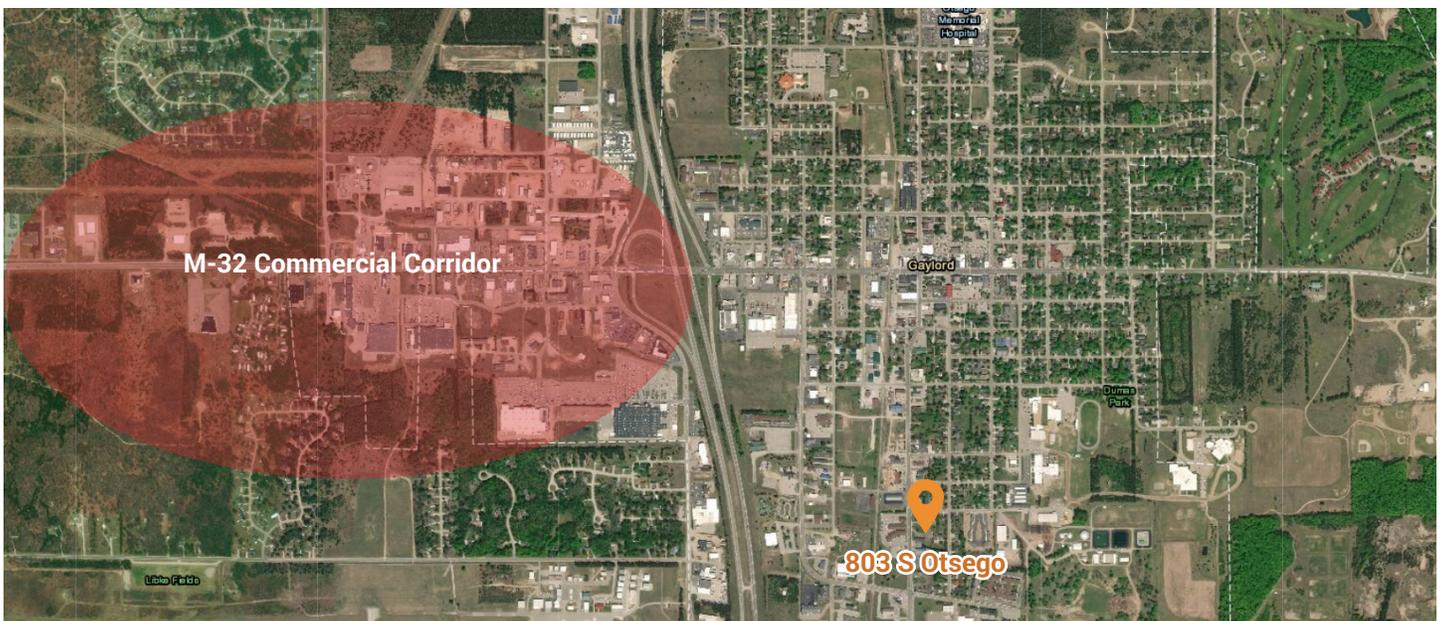
Segmentation	Socioeconomic Traits	Market Profile
<p>Small Town Simplicity (12C)</p> <p>Average Household Size: 2.26 Median Age: 40.8 Median Household Income: \$31,500</p>	<ul style="list-style-type: none"> • Education: 67% with high school diploma or some college. • Unemployment higher at 7.7% (Index 141). • Labor force participation lower at 52% (Index 83), which could result from lack of jobs or retirement. • Income from wages and salaries (Index 83), Social Security (Index 133) or retirement (Index 106), increased by Supplemental Security Income (Index 183). • Price-conscious consumers that shop accordingly, with coupons at discount centers. • Connected, but not to the latest or greatest gadgets; keep their landlines. • Community-orientated residents; more conservative than middle-of-the-road. • Rely on television or newspapers to stay informed. 	<ul style="list-style-type: none"> • Small Town Simplicity features a semirural lifestyle, complete with trucks and SUVs (domestic, of course), ATVs, and vegetable gardens. • Residents enjoy outdoor activities like hunting and fishing as well as watching NASCAR and college football and basketball on TV. • A large senior population visit doctors and health practitioners regularly. • However, a largely single population favors convenience over cooking—frozen meals and fast food. • Home improvement is not a priority, but vehicle maintenance is.
<p>Salt of the Earth (6B)</p> <p>Average Household Size: 2.59 Median Age: 44.1 Median Household Income: \$56,300</p>	<ul style="list-style-type: none"> • Steady employment in construction, manufacturing, and related service industries. • Completed education: 40% with a high school diploma only. • Household income just over the national median, while net worth is nearly double the national median. • Spending time with family their top priority. • Cost-conscious consumers, loyal to brands they like, with a focus on buying American. • Last to buy the latest and greatest products. • Try to eat healthy, tracking the nutrition and ingredients in the food they purchase. 	<ul style="list-style-type: none"> • Outdoor sports and activities, such as fishing, boating, hunting, and overnight camping trips are popular. • To support their pastimes, truck ownership is high; many also own an ATV. • They own the equipment to maintain their lawns and tend to their vegetable gardens. • Residents often tackle home remodeling and improvement jobs themselves. • Due to their locale, they own satellite dishes, and have access to high speed internet connections like DSL. • These conservative consumers prefer to conduct their business in person rather than online.
<p>Rural Resort Dwellers (6E)</p> <p>Average Household Size: 2.22 Median Age: 54.1 Median Household Income: \$50,400</p>	<ul style="list-style-type: none"> • Rural Resort Dwellers residents are close to retirement. They've accumulated wealth and begun to shift their portfolios to low-risk assets. These active residents continue to work in skilled occupations. • Simple tastes and modesty characterize these blue collar residents. They shop for timeless, comfortable clothing, but only when something must be replaced. They pay little attention to advertising and usually stick to the brands they know. • They spend time with their spouses and also maintain a social calendar. 	<ul style="list-style-type: none"> • Residents drive older domestic vehicles and prefer to spend their disposable income on gear to support their hobbies, which include freshwater fishing, hunting with a rifle or shotgun, and motorcycling. • At home, Rural Resort Dwellers residents spend any free time working on their vehicles and maintaining their gear. They make frequent trips to their local hardware store for parts and tools. • Their taste in TV shows reflects their hobbies—National Geographic, Discovery Channel, and the Weather Channel.

COMPETING RETAIL AREAS

One of the potential uses of the site is commercial. This type of development could range from strip center to big box to even potentially mixed-use. To assess the potential success of these development forms, an analysis of competing retail areas, who also have available property or vacancies, has been conducted to determine the competitiveness of the site.

Major Competition

The main competitor locally for commercial development is the M-32 corridor west of I-75. In the last ten years, this corridor has seen explosive growth and has caused Gaylord to become a major retail hub of the northern lower peninsula. More recent major big box retailers like Meijer and Kohl's have extended this commercial corridor farther east, pushing development momentum with them. This represents a significant market challenge for a strictly retail reuse of the site.

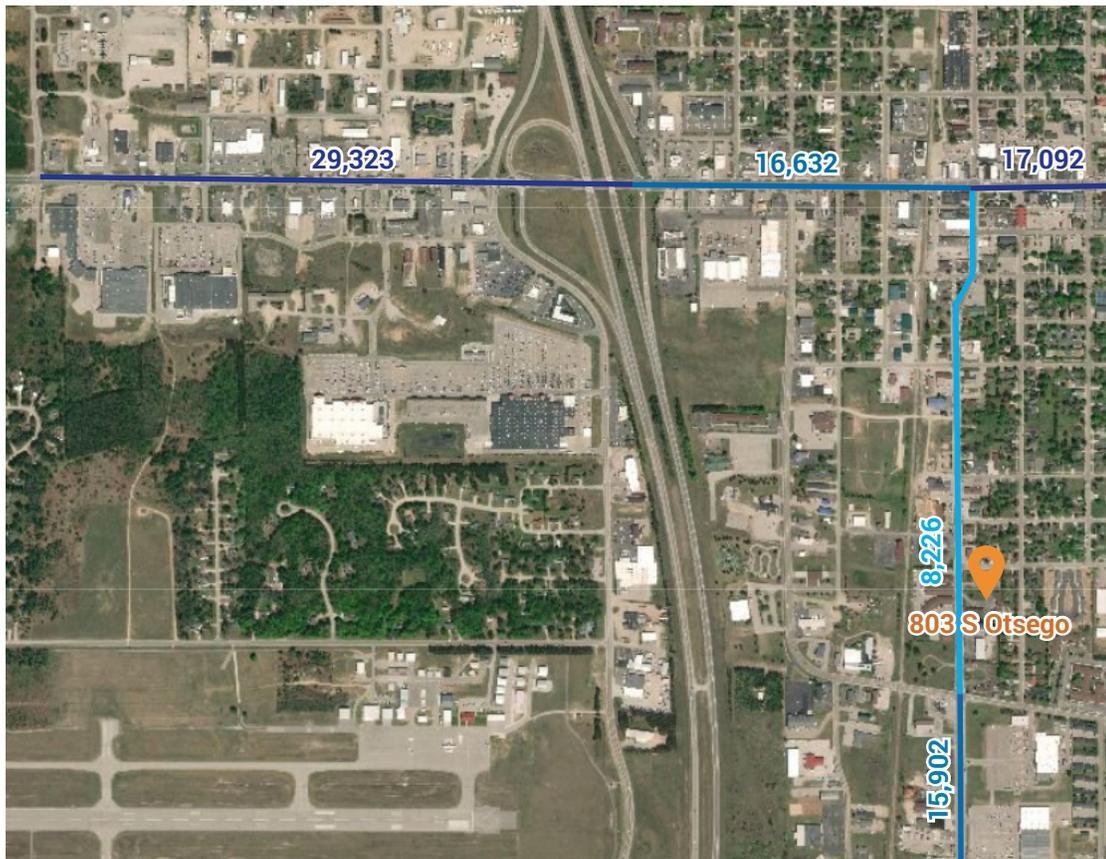


TRAFFIC COUNTS

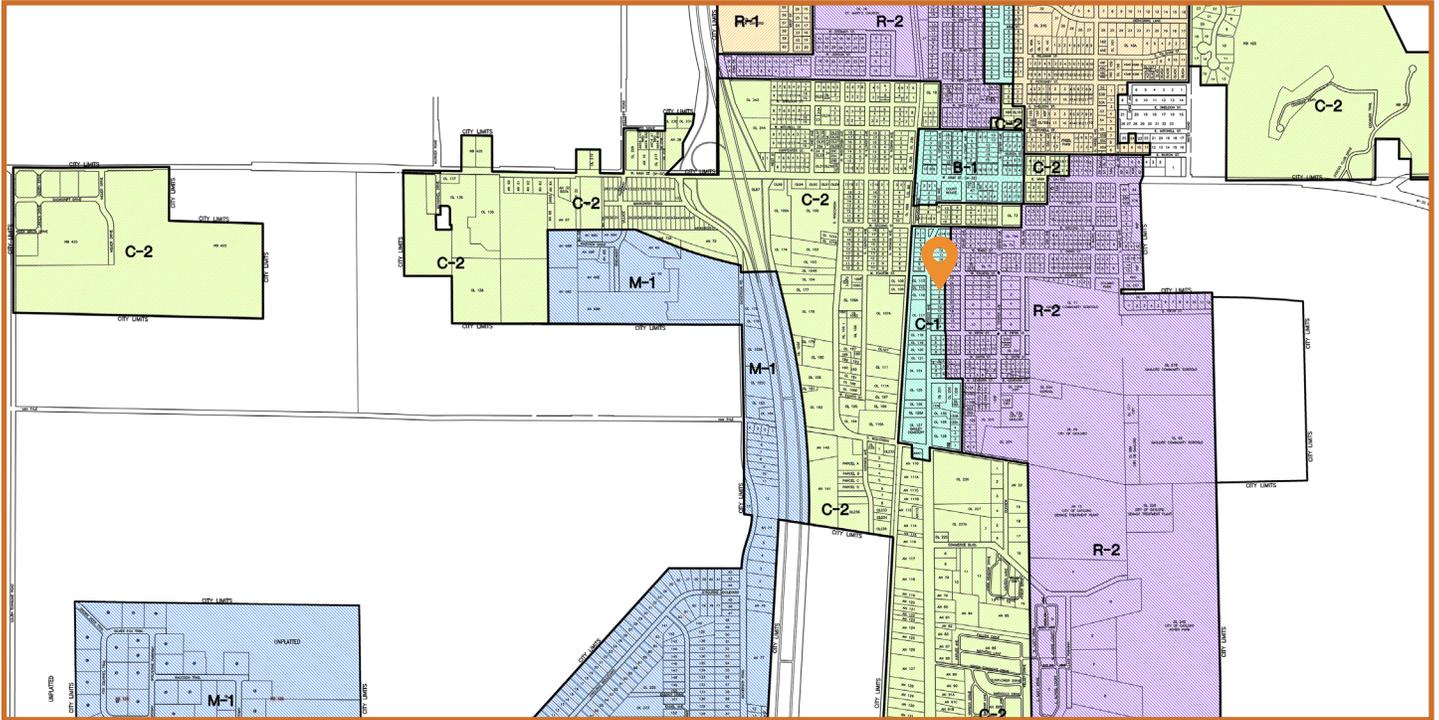
A major factor for the location of major chain retail is the number of cars that pass near a property on a daily basis. The more car traffic, the more national retailers like a site. This term is called Average Annual Daily Traffic (AADT.) The most recent AADT study for the Gaylord area was done by the Michigan Department of Transportation (MDOT) in 2017. The chart and graphic below shows the traffic counts for M-32 and Business Loop 75 (Otsego Avenue.) Of the major surface streets in Gaylord, the section of Otsego Ave where the site is located has the lowest amount of AADT, making it less attractive to chain retail or restaurants.

Road Section	Traffic Count
West M-32 (I-75 to Merner Road)	29,323
East M-32/Main St (Otesgo Ave to Old 27)	17,092
East M-32/Main St (I-75 to Otesgo Ave)	16,632
North Business Loop 75/Otsego Ave (McCoy Rd to Grandview Blvd)	15,902
North Business Loop 75/Otsego Ave (Grandview Blvd to M-32/Main St)	8,226

Source: Michigan Department of Transportation, 2017



Zoning + Surrounding Land Use



Source: City of Gaylord, 2016

Reuse of the site should take into consideration current and future land use as well as the uses of the surrounding properties. In talking with the City of Gaylord's planning staff, the current zoning (C-1) is anticipated to remain for the foreseeable future. Furthermore, the surrounding land uses of R-2 (adjacent to the site) and C-2 (approximately 100 yards from the site) provide for a mix of uses that could benefit the site should rezoning be necessary.

Permitted Uses

The City's C-1 zoning allows for a wide range of uses that could benefit the site's redevelopment. Among these uses the city cites the ability of the C-1 designation to allow "Uses permitted in R-2 District, providing requirements of that district are met." This allows the reuse of the site to include multi-family structures (apartments) helping alleviate some of the community's pent up demand for market-rate housing (see Recent Market Analyses on the following page.)

Height Restriction

One major drawback of the C-1 zoning limits the height of buildings within this area: "Buildings and structures shall exceed neither thirty-five (35) feet, nor two and one-half (2 1/2) stories in height..." If a redevelopment option is to include multi-family or mixed-use, this could be a barrier. Remedies for this could include the request of a variance (or waiver) for a specific project or a request for the property to be rezoned to C-2, which allows for much taller building heights.

Recent Market Analyses

In 2016, the Michigan State Housing Development Authority (MSHDA) commissioned studies statewide, including for Otsego County, to determine the demand for market-rate housing. These studies were completed by Land Use USA and made several key conclusions on the pent-up demand for market rate housing, including housing types called “missing middle.” Missing middle are types of housing that are not typically abundant in Michigan but are in demand. These include attached townhomes/row houses, multi-story mixed-use, duplexes and triplexes, among others. In addition, the study also examined the demand for more traditional types of housing such as multi-family apartments and single family. The analysis determined a significant amount of yearly demand for a five-year period (2016-2021.) The chart below show the *annual* amount of demand. This means to accurately project for five years, these numbers should be multiplied by *five*. To date, relatively very few units have been constructed to meet this demand.

Number of Units by Building Format/Size	Conservative Scenario		Aggressive Scenario	
	Unadjusted w/out Slide	Adjusted with Slide	Unadjusted w/out Slide	Adjusted with Slide
1 Detached Houses	361	361	731	731
2 Side-by-Side & Stacked	16	16	35	36
3 Side-by-Side & Stacked	31	30	66	66
4 Side-by-Side & Stacked	18	20	39	40
5-9 Townhouse, Live-Work	92	91	187	185
10+ Multiplex: Small	26	26	54	54
20+ Multiplex: Large	35	35	71	71
50+ Midrise: Small	23	56	50	117
100+ Midrise: Large	33	.	67	.
Subtotal Attached	274	274	569	569

Source: Land Use USA, 2016

This analysis shows a significant amount of annual demand, even under the conservative scenario, to justify a substantial amount of new housing in these formats.

CONSTRUCTION COSTS + LEASE RATES

Planning for the redevelopment of the site requires an understanding of what the potential cost of a new building or buildings would be. Below is a chart outlining the current construction rate estimates for various types of projects.

Construction Type	Cost Per Square Foot
Rehab- Existing	\$110-\$120
New Construction- Commercial Only	\$190-\$210
New Construction- Residential Only	\$175-\$185
New Construction- Mixed-Use	\$190-\$210

Source: MEDC, Place + Main Advisors, LLC, (2019)

Calculating Potential Project Costs

A project's specific costs will vary based on the specific needs of the site. Conditions such as contamination, lead, and asbestos could all add to the cost of the project. For this site, demolition of the existing structure will be required. Demolition of the site could be as high as \$50,000. Additionally, the construction cost per square foot typically goes down the larger a structure is due to economies of scale. For example, a three-story building will of course be more expensive to construct, but the cost per square foot would be less than a one-story building. The chart below gives an example of the potential construction costs of a mixed-use site.

Project	Square Feet	Cost Per Square Foot	Construction Cost
1-Story Commercial	30,000	\$210	\$6,300,000
2-Story Mixed-Use	60,000	\$200	\$12,000,000
3-Story Mixed-Use	90,000	\$190	\$17,100,000

High Cost of Construction

Undoubtedly, these costs will be staggering to many. Many Michigan-based construction companies have experienced a shortage in the skilled labor needed to do quality construction. As a result, the costs of construction have risen dramatically. There will be a need to potentially offset these costs.

COMMERCIAL + RESIDENTIAL LEASE RATES

Lease rates are an important factor in redevelopment finance. To determine the cash flow for a property, or how much a property can get in revenue on a monthly basis less the costs associated with the property including operating and long-term financing (mortgage.) The higher the lease rate, the more debt the property can take on. Given the current cost of construction, lease rates will need to be high enough to be able to finance the property long-term, or incentives will be needed to bring down the amount of long-term debt needed to construct the project.

Commercial Lease Rates

Whether the redevelopment of the site is single- or mixed-use, there is a high likelihood of the need for commercial space. According to several current listings, lease rates for commercial are ranging from \$1 per square foot on the low end to \$2.33 per square foot on the high. Newly built, stand alone commercial along M-32 is currently asking for between \$1.67-\$2.33 per square foot.

Residential Lease Rates

Should the redevelopment of the site include market-rate residential, these lease rates will be critical to the cash flow of the property. Below is a chart outlining current available lease rates for residential apartments.

# of Bedrooms	Per Square Foot lease Rate
One	\$0.93-\$0.98
Two	\$0.88-\$0.95
Three	\$0.92-\$0.95

Further analysis shows the monthly rent range based on total number of units. The chart below shows the eleven highest monthly rent averages. These units represent roughly 68% of the total units available in a 15-Minute drive time of the site.

Monthly Rent Range	\$500 to \$549	\$550 to \$599	\$600 to \$649	\$650 to \$699	\$700 to \$749	\$750 to \$799	\$800 to \$899	\$900 to \$999	\$1,000 to \$1,249	\$1,250 to \$1,499	\$1,500 to \$1,999
Number of Units	211	152	232	152	139	52	146	58	11	24	10
% of Avail. Units	12.1%	8.7%	13.3%	8.7%	8.0%	3.0%	8.4%	3.3%	0.6%	1.4%	0.6%

Source: Source: U.S. Census Bureau, 2013-2017 American Community Survey

RECOMMENDATIONS + POTENTIAL INCENTIVES

The redevelopment of the former Royal Crest Motel will not be an easy task and there are no simple answers for a way forward. However, based on the data in this report, it is recommended that the community pursue redevelopment of the site with the following two reuses in order of preference:

Market-Rate Mixed-Use: A multi-floor building or buildings with commercial on the first floor targeting locally-owned businesses or potentially live/work units. Three to four floors of market-rate residential apartments would be above. This would be the highest and best use of the site as it would still contribute to the retail/commercial nature of the district, but also address the need for market-rate housing in the area. Having residential units above the retail/commercial first floor would also provide a built-in customer base for potential businesses in addition to those living in the nearby R-2 district.

Market-Rate Multi-Family: The largest question for the redevelopment of the site is whether the commercial real estate market sector is strong enough to absorb new commercial space in this area. If it is not, there is more than sufficient need for additional market-rate rental housing. In this case, using the site as a strictly multi-family residential would be recommended. Under current zoning the site could house two story buildings, but three to four would be recommended.

Both of these uses increase the density on the site, and would significantly both address a critical need in the community as well as dramatically increase tax revenue from the site. Being able to maintain infrastructure in and around the site long-term is a major consideration and maximizing the revenue generation of the site is a major consideration.

Important Factors

There are several factors that are important in consideration of these recommendations:

Demolition + Brownfield: Removing the existing structure and creating a plan for any potential environmental conditions is an absolute must for the site. Making the site equal or greater to a greenfield site like those along M-32 will be important to getting the site redevelopment.

Zoning/Rezoning: The current C-1 zoning limits the building height to two and half stories which limits the potential economy of scale and potential revenue (both private and public) for the site. The City would need to consider either allowing a variance or rezoning to C-2 in order to allow buildings taller than two and half stories.

Additional Incentives: The current combination of high costs of construction and low rental rates will likely necessitate the need for additional incentives. This is outlined further in the next section.

POTENTIAL INCENTIVES

Incentives for redevelopment of the site will likely be needed. However, not all incentives are equal or paid for by the same parties. Some incentives are locally controlled and should be considered. These incentives should be prioritized by length of time (shorter preferred to longer) and projected financial amount of commitment. From the public sector vantage point, it would be better to conditionally give the land to a developer and provide a 50% tax abatement for 10 years than to offer a Payment in Lieu of Taxes (PILOT) for 15-20 years. In this scenario a 50% abatement will result in more revenue and go to a full amount of tax revenue than a PILOT would. Below are some of the incentives that the community could use to help redevelop the site:

Incentive	Who Approves?	Use	Amount
Community Development Block Grant (CDBG)	MEDC	Demolition, Infrastructure	Varies
Community Revitalization Program (CRP)	MEDC	Construction	Up to 50% of project (max \$1.5M)
Brownfield Tax Increment Financing (TIF)	MEGLE, MEDC, Otsego County Brownfield Authority	Environmental Clean-up, Demolition, Site Prep	Varies
Commercial Tax Abatement	City of Gaylord	Tax Abatement for new investment	Up to 50% of assessed taxes for 12 years

The Michigan Economic Development Corporation's (MEDC) Community Assistance Team (CATeam) can be of assistance as incentives are being considered. It is strongly recommended to involve them in future discussion on this project.



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