

**Downtown Hammond Redevelopment Plan  
Market Assessment Draft  
May 2009**

*Draft May 21, 2009*



## **Market Assessment**

A key component of downtown Hammond's current planning process is the assessment of downtown's market-related opportunities. Downtown Hammond is located at a strategic location but has experienced substantial disinvestment over time and currently faces some daunting social challenges. Yet Hammond has also had good news in recent years. Major retailers have invested just to the north of downtown's core. Plans are in process for a new school located downtown. Hammond's casino is one of two gaming venues in Indiana experiencing revenue increases in these challenging economic times. The new Cabela's location at the Borman Expressway and Indianapolis Boulevard has received national attention in the retail press. Hammond's leadership is committed to increasing downtown activity and subsequent market demand and to ensuring that downtown can incrementally and strategically address its future, broader redevelopment opportunities.

### **Current Market Conditions**

The impact of the current economic downturn will remain the key factor in considering local and regional opportunities for all levels of growth and development in Hammond and elsewhere. Although debate continues about when the current recession began, there is no debate about the abysmal state of the real estate market. The collapse of an overheated residential real estate market prompted a decline in shopping for goods and services and decreased demand for office space associated with home finance. Increases in costs, including the ups and downs of fuel prices, have added to market woes by increasing consumer and developer costs. Layoffs have reduced demand for goods and services, with subsequent reverberations in all real estate sectors—residential, commercial, and industrial and office. In the retail sector, weaker retailers have left the market. Stronger retailers are seeking rent reductions and modifications of lease terms. The collapse of residential and commercial lending and their secondary markets has added tighten credit to these ongoing economic difficulties.

These conditions have slowed residential and commercial growth nationally and could change the balance of future residential, retail, office, and industrial growth occurring in all communities. Under these economic conditions, development is riskier, and therefore, investors will require higher returns. The net effect is declining property values, suspension of many proposed projects, and few new projects. Related to these current uncertainties are potential changes in underwriting criteria for all types of real estate developments in future years. Current indications are that developer equity requirements will be significantly greater than in recent years.

### *Retail Market*

The factors combining to create a challenging retail environment are many. Consumers continue to hoard their discretionary income. Restaurants, as a retail sub-set, are experiencing decreased sales, reflecting the new consumer focus on value. The issue of

aggressive retailer lease re-negotiations was noted earlier. Controlling costs and curbing expansion plans are the two additional hallmarks of current retail operations.

As reported by CB Richard Ellis (1<sup>st</sup> Quarter 2009), recent retail vacancy rates in the markets in Chicago's south suburbs and in Michiana (St. Joseph County) are 17.5% and 9.28%, respectively. Both regions have experienced increased vacancy rates over the last two quarters. In the south suburbs, average net asking lease rates range from \$11.77-18.55 Per Square Foot (PSF). Michiana's asking lease rates are tracked differently, reporting ranges from \$11-21 PSF. The asking rates at the higher end in this market are for new and larger retail spaces. Both markets have projects under construction; typically these plans were in process in advance of the current economic stress.

According to LoopNet, retail asking, triple net rents on Hammond's 165<sup>th</sup> Street retail corridor are in the \$12-15 PSF range. Project interviewees noted downtown's net rents in the \$7-8 PSF range and \$12-18 gross rent PSF. There were few parcels of vacant land included among any commercial real estate listings. Listings for vacant land in Hammond were all at asking prices less than \$2 PSF.

*Implications for Downtown Hammond:* Recent downtown investments by Strack & Van Til and Walgreen's speak to the potential of downtown's (or the study area's) higher traffic streets, such as Sibley Boulevard. This locale developed because those tenants saw an opportunity to capture sales from a convenience drive-time market, including nearby Illinois residents avoiding Cook County and local sales taxes. In addition, this locale has the most available land suitable for major retailer uses. Though near downtown's core, this type of investment will likely not occur along Hohman Avenue. Retail and restaurant development in downtown's core will be incremental and long-term. It will also likely depend upon the success of local retail and restaurant entrepreneurs.

### *Office Market*

The office market is divided by building types. Class "A" office space is contained in buildings that have excellent locations and access, attract high quality tenants, and are managed professionally. Building materials are high quality, and rents are competitive with other new buildings. The office buildings clustered in prestige locations with lots of brass and glass fixtures and huge, expensive lobbies are examples of Class A office buildings. Class A office buildings are usually steel-framed and tall. They contain banks, law firms, investment banking companies, and other high-profile tenants with a need to demonstrate their financial success. Class "B" buildings have good (versus excellent) locations, management, and construction, and tenant standards are high. These buildings typically have little functional obsolescence and deterioration. Class B buildings are usually newer, wood-framed buildings or older, former Class A buildings. Wood-framed Class B office buildings are usually three stories or less. Most suburban Chicago business parks contain Class B office development. Class C buildings are typically 15 to 25 years old and maintain steady occupancy. A fair proportion of the Class C office spaces are not truly office buildings but walk-up office space above retail or service businesses or space in one-story shopping centers. The following table documents office conditions in the nearby submarkets most applicable to Hammond, according to CB Richard Ellis

With little new Class A office construction in the past seven years and none underway now, aging A space is beginning to compete in the Class B market. This product is often targeted to the small and medium sized, privately owned businesses that tend to adjust readily to economic challenges. These same types of firms are responsible for most employment growth.

National trends have less impact on the small office market because tenancies, such as medical and personal service businesses, occupying this space respond to local needs and are relatively stable operations in most economic conditions. The underlying development or redevelopment of such space requires less capital and can be built to suit, further reducing the risk of small office projects.

In Chicago's south suburbs and Michiana, any office projects currently under construction are build to suit, primarily for medical users. The overall vacancy rate in the south suburbs is 20.2% with base square footage of 2.4 million SF. About 40% is Class B space. In the first quarter this year, the south suburbs were the only sub-market experiencing a positive net absorption of lease space within the Chicago area market. Vacancy rates in Michiana were 16.75%, with asking rents for Class A space in the \$15-21 PSF range. Average asking lease rates for all office space Classes in the south suburbs are similar--\$17-19 PSF. (Source: CB Richard Ellis, 1<sup>st</sup> Quarter 2009.)

*Implications for Hammond:* Smaller user office space is already available on the Hohman Avenue corridor and is a key element of downtown Hammond's overall mix. LoopNet notes one such small, downtown office space for lease at \$10 PSF gross. As with retail, the opportunity to improve and enhance such office space will remain important for Hammond for four reasons: increased numbers of customers and commercial activity, increased perceptions of safety, potentially increased entrepreneurship, resulting from the Purdue Incubator and locals interested in investing in downtown's success, and retention or expansion of downtown's existing legal-related and medical tenancies.

### *Residential Market*

Hammond's residential market is diverse in price points and available dwelling unit types. Recent residential listings, according to Realtor.com and similar sources, display a range of listing prices from \$19,000 to \$690,000. Listings for multi-family properties are included within this range. The median home price for Hammond varies by real estate source, but the general range is \$75-90,000.

Hammond's population growth has declined since 1990. (See Table XXX below.) According to the U.S. Census Bureau, 35 building permits for new privately owned residences, representing 36 residential units, have been issued in Hammond since 2004. As with the real estate market annually, Hammond is experiencing some residential foreclosures. City-Data.com indicates there are 213 currently in process in Hammond. RealtyTrac indicates 282 bank-owned properties.

*Implications for Downtown Hammond:* Single-family residential options in other Hammond neighborhoods are the norm and likely more appealing to a typical, local buyer. Given the diversity of housing and price points located throughout Hammond, the

demand potential for an unproven product, such as high density, residential in-fill development with higher price points and a higher development costs, is a long-term proposition at best. Declining population and household formation inhibit market interest in new or additional housing products. Options for other housing types geared to Hammond's workforce and income may prove more suitable in and near downtown over the long-term. Such housing could be developed using multiple funding sources.

## **Commercial Development Concepts**

Because the success of Hammond's downtown will depend on national, regional, and local market perceptions, the following framework can begin to guide Hammond's market-based, downtown revitalization approach. This approach considers commercial development realities, demographics, the built environment, and downtown's current market position.

There are five attraction concepts that need Hammond's consideration in formulating any commercial, including retail, development strategy. The decision to develop commercial space is based on core concepts that underlie the expectation for acceptable sales generation at a specific location. These concepts are:

1. *Expect retail development to follow other markets.* There must be a sufficient residential population before the market will support development or redevelopment of commercial, retail, and restaurant space. Nearby residents within walking distance or a short drive are important to every community's commercial areas. The Downtown is proximate to residential housing within a five to ten minute drive that could be attracted to shop downtown. Office workers are another important market that can promote a marginally successful retail district into a successful one. The significance of the office worker market is its connection to a strong food and beverage offering. A significant concentration of office uses adds a lunch seating and "cocktail hour" that can increase restaurant business by up to 1/3. In addition to patronage from nearby residents, office workers bring increased vitality and activity and business growth through reinvestment of profits. This represents a 'bonus' market for typical downtown businesses.

*Implications for Hammond:* As an example, the addition of office workers in downtown Hammond can take advantage of food and beverage businesses, providing a revenue bonus that enhances individual business performance. This bonus market can supplement the nearby residential market and support food and beverage business development, or redevelopment, slightly in advance of the coming of other uses. Increased programming activity at downtown's Towle Theater could also produce a 'bonus' market over time.

Table 1 denotes demographics for .5 miles, 1 mile, 5 miles, and 5 minutes of downtown Hammond. A comparison of Hammond's incomes with those of neighboring communities is also shown in Table 2.

Table 1

	Hammond	0.5 Miles	1 Miles	5 Minutes
Basic Variables 2008				
Population	77,172	4,178	18,358	37,029
Average Household Size	2.66	2.49	2.7	2.8
Households	28,817	1,628	6,738	13,128
Population Density	3,095.44	5,319.20	5,843.69	5,913.96
Total Population Median Age	34.94	29.89	31.42	32.5
% Bachelor's Degree	10.87%	8.62%	10.58%	10.34%
% Graduate or Professional School Degree	4.01%	3.27%	4.17%	4.49%
Average Household Income	\$44,614	\$32,075	\$39,013	\$42,446
Median Household Income	\$44,625	\$20,291	\$34,085	\$38,609
Households w/ Incomes \$75,000+	6,208	170	1,026	2,381
Total Employees	32,616	6,845	10,497	16,219
Total Establishments	2,036	305	649	1,091
Total Retail Expenditure	\$498,327,238	\$23,380,193	\$107,690,640	\$220,451,082

Demographic data © 2008 by Experian/Applied Geographic Solutions.

Table 2

	Hammond	Calumet City	East Chicago	Highland	Munster	Whiting
2008 Household Income						
Average Household Income	\$44,614	\$50,407	\$41,012	\$62,467	\$88,040	\$49,014
Median Household Income	\$44,625	\$47,971	\$32,685	\$63,304	\$80,807	\$42,721

Demographic data © 2008 by Experian/Applied Geographic Solutions.

The .5-mile radius identifies the likely population comprising a pedestrian market for downtown Hammond. The 5-minute market represents a vehicular-oriented convenience market. The 1-mile market also represents another convenience geography. The 5-mile market represents a larger, more destination oriented market. Downtown Hammond's major challenge demographically is its low population within the .5 mile market. In addition, incomes for this same geography are lower than those of the other geography and Hammond's neighboring communities. This .5-mile market has a strong employment number, nearly 7,000. Overall, with the exception of Munster, Hammond's incomes are comparable to those of surrounding communities and for downtown's geographies.

Hammond's declines in household numbers and population, as in Table 3, could have an impact upon certain investor perceptions. As with traffic counts, household formation, or growth, is another component of what an outside investor perceives a location in downtown Hammond or elsewhere. According to U. S. Census data, Hammond's population decreased by 1.4% between 1990 and 2000.

Household growth in Hammond declined slightly, at .3%. Recent data indicates a projected population decline for Hammond of 2.3% by 2013. Households are also projected to decline by 4%, again by 2013. With the exception of Munster, Hammond's declines in population and household numbers are similar to neighboring communities.

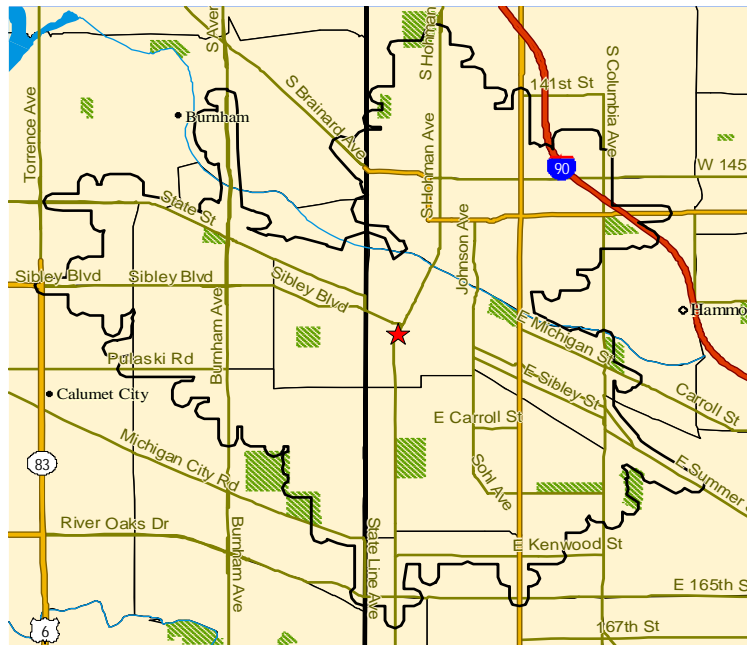
Table 3

Population Change

	Hammond	Calumet City	East Chicago	Highland	Munster	Whiting
Percent Change from 2008 to 2013:						
Population	-2.20%	-2.90%	-3.70%	-0.90%	2.60%	-3.30%
Household	-4.00%	-3.70%	-5.40%	-2.60%	0.10%	-4.90%
Percent Change from 1990 to 2000:						
Population	-1.40%	3.10%	-4.40%	-0.60%	7.80%	-0.50%
Household	-0.30%	-2.00%	-3.40%	10.40%	12.00%	-2.40%

The 5-minute drive time market, shown on the following map, includes nearly 40,000 people with over 16,000 employees. The spending power for this very dense market is significant, over \$220 million, despite a modest median income. These general location characteristics are what attracted tenants, such as Walgreen's, to downtown's western area, despite slightly lower traffic counts as described below.

Map 1

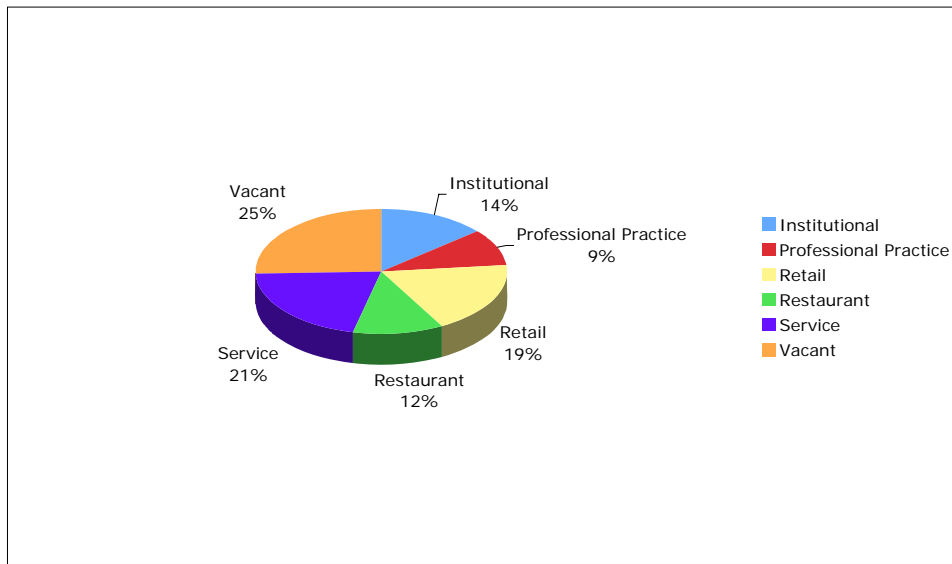


To determine the study area's retail sales gap, downtown's existing retail sales were estimated and compared with the Total Retail Expenditures for the .5 and 1 mile and 5 minute drive time geographies. Downtown's current business mix includes 13 retailers and restaurants. These 13 businesses generate an estimated \$35,400,000 in sales, applying standards from the Urban Land Institute's 'Dollars and Sense of Shopping Centers 2008' and adjusting for Hammond's market. In each of the 3 geographies, downtown is capturing 151.4% of the total retail expenditures within the .5-mile geography, 32.9% within the 1-mile, and 16.1% within 5-minute market. Obviously, downtown's ability to attract spending from the surrounding area to those major retailers on Sibley is strong in each geography. The vast proportion of downtown's estimated sales are from that locale. The challenge for downtown is to incrementally expand the variety of the retail offering with successful and sustainable businesses. General categories of potential businesses are listed below. Some of these businesses have potential in the longer term.

1. Convenience
    - a. Dry Cleaners
    - b. Day Care
    - c. Hair and Personal Care
    - d. Fitness Center
  2. Additional Food and Beverage
    - a. Limited Service
    - b. Table Service
  3. Business Support
    - a. Additional Office Supply
    - b. Copy and Mail Services
  4. Other Retail
    - a. High Quality Thrift Store (Long-term)
    - b. Auto Parts (West on Sibley)
    - c. Gift-related (Long-term)
2. *Create clusters versus a broad selection of businesses.* There must be enough similar tenants to allow consumers to comparison shop. In the abstract, it makes sense that the ideal retail development represents a broad mix of businesses satisfying the "cradle to grave" needs of local residents. This concept defies the term "shopping," because there never could be sufficient space to meet the volume and variety of business to meet the desires of all residents. Today's auto oriented retailing assumes that customers will travel for selection. Consequently, while today's successful shopping districts offer convenience shopping, for example a drug store, different shopping districts have evolved to satisfy varying niches for other items. Strong retailers like to cluster near competitors because they know that such an area gets a reputation as "the place to go to shop for...."

*Implications for Hammond:* A strong convenience cluster with national and regional retail has developed near Sibley between Hohman and State Line and will continue to develop, assuming improving real estate economics and increasing traffic. Downtown’s current ground floor uses, or business mix, is shown in Chart 1 below. Vacancies are a component of this mix, representing 25% of ground floor uses, based upon BDI’s survey. The overall mix is generally reflective of a typical downtown uses. A typical mix would encompass the categories observed, though downtown Hammond has slightly larger institutional component. (Downtown’s two SROs are included in this category.)

Chart 1



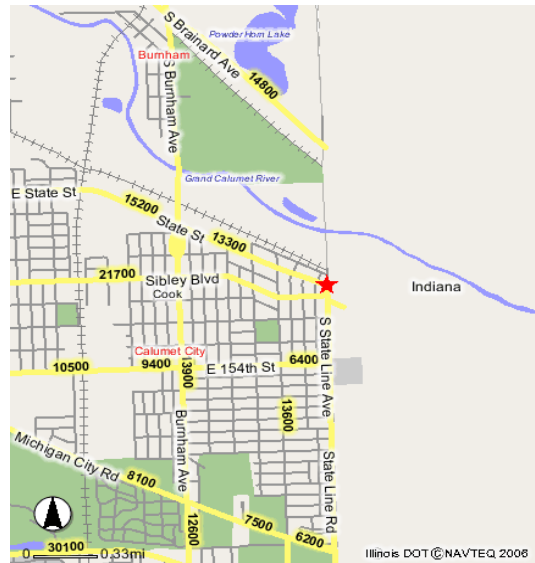
Additional office tenants, expanding the daytime employee market, could begin to attract additional food and beverage operations. For example, by adding 200 employees in downtown Hammond and assuming they spend \$25 weekly for 50 weeks each year, the annual spending is \$250,000. In addition to the ‘bonus market’ described, an increasingly profitable cluster will attract additional similar and complementary businesses over time.

3. *Recognize the importance of visibility.* Storefronts must be visible to a large enough pedestrian and/or “driver” population. Although repeat customers are the lifeblood of any business, there also must be a steady flow of new customers. Those customers are much easier to attract when a large population sees the business every day. Studies by national restaurateurs and retailers indicate that at least 20,000 vehicles and/or pedestrians per day pass the most vital retail businesses.

As the following map from the Illinois Department of Transportation (IDOT) and data from the Indiana Department of Transportation (INDOT) reveal, the nearest average daily traffic counts (ADTs) to downtown Hammond range from 6,200 to

21,700 on the Illinois side. INDOT's 2003 ADTs closest to downtown Hammond are in the 18-19,000 ranges. In contrast, ADTs in on U. S. Route 41 and 165<sup>th</sup> Street are 34,400 and 25,670, respectively. Although pedestrian counts are unavailable, observation during consultant visits suggest that they are quite low.

Map 2



*Implications for Hammond:* Without visibility, downtown Hammond businesses must be destinations that create their own traffic through advertising. Some inherent physical barriers, including the bridge and access routes to downtown, hamper downtown visibility. Downtown Hammond's market also has some inherent obstacles. Downtown's current form may be larger than its future functions require, but adaptively using downtown's historic office buildings can serve to differentiate downtown Hammond from other locales. The traffic counts, as noted earlier, diminish the potential of recruiting high volume or larger format retailers to the district, but increasing the office worker population can expose downtown's successes to a wider audience.

4. *Consider the importance of downtown anchors.* The underlying premise of modern shopping centers is that consumers are attracted by a high volume business, the anchor, and then, notice and purchase the offerings of adjacent smaller stores. Today, this pattern has been modified by the lifestyle center concept where a cluster of well-known, smaller retailers combines to fulfill the anchor function. When centers lack anchors, often due to the closing of a business, the center becomes less economically stable. Tenants constantly seek those anchored locations where they can achieve higher sales from the customers of adjacent anchors.

*Implications for Hammond:* Business clusters, including those with established destination businesses, serve the anchor function in downtown districts. Downtown Hammond could potentially benefit from an office cluster and those businesses that could serve a growing daytime market.

5. *Remember that parking is both an art and a science.* Parking ‘science’ studies the number of customers associated with stores of various sizes and creates a model that dictates the necessary parking spaces per square foot. This research has led communities to codify standards, such as four spaces per 1,000 square feet of commercial space. The ‘art’ of parking involves the appearance of lots, directional signage, time limits, and enforcement procedures. Parking ‘science’ works well for shopping centers, freestanding grocery stores, and restaurants. Consequently, there is little need for ‘art’ at those locations. In downtowns, patrons park once and visit multiple locations. The ‘art’ aspect dominates, as patrons’ experience the frustration of shared, sometimes hidden, parking. Increasingly downtowns are responding to their unique parking problems by relying on improved signage, cooperative programs to provide employee parking, rear façade programs, enforcement, and studying parking capacity utilization.

*Implications for Hammond:* Downtown Hammond has significant parking available throughout the downtown study area. As office tenancies increase and other downtown entities, such as 1<sup>st</sup> Baptist or St. Margaret’s Hospital, expand, understanding the location, utility, convenience, and usage of existing parking will be key.

Improving downtown Hammond’s match to these commercial development concepts will be key to building the consumer markets needed to achieve downtown’s market potential. With weaknesses in anchors and business mix and average daily traffic volumes and safety concerns, the challenge will be establishing priorities.

### **Additional Market Considerations**

In considering downtown’s market potential for increased commercial activity and future opportunities for development and redevelopment, several issues specific to downtown Hammond require additional consideration within a market context.

1. **Perception of Safety.** Downtown Hammond faces a significant social challenge with its multiple homeless and transient populations. Addressing this issue comprehensively will be required in advance of any significant successes in downtown’s revitalization and related business attraction. Other communities throughout the U. S. have faced similar challenges. Certain communities, such as Evanston, Illinois and New Haven, Connecticut, have achieved success through cooperation between the downtown business community (downtown organizations and Chambers), City health, housing, and social services staff, City Police, and all relevant social service agencies (churches, outreach non-profits, substance abuse non-profits, as examples). These programs make distinctions between economically

homeless, chronically homeless, individuals afflicted with substance abuse, and individuals with mental or physical challenges. These partnerships between the participating entities monitor and fill service gaps to these populations, conduct outreach in tandem, provide safe housing referrals and other support services, and use regulatory enforcement, as applicable to their downtown. Regulations can include panhandling ordinances and code enforcement for specific uses or buildings. While these efforts take time and are difficult, the communication among the partners ensures that these programs address actual behaviors and not perceived status.

2. **Competitive Context:** Hammond’s potential consumer markets, given the City’s location, have access to multiple retail options, whether 165<sup>th</sup> Street, Merrillville, Munster, Schererville, Calumet City, or Lansing. Within this broader context, downtown Hammond is functionally part of one larger, fluid regional market. Residents are willing to drive throughout the region for purchases of goods and services. Retail development in area highway corridors will resume, despite current issues specific to area shopping centers. Hammond’s Indiana location, as noted, does confer a sales tax advantage on routine consumer purchases versus its Illinois neighbors. Over the long-term, positioning downtown Hammond as a resurgent downtown business district, while developing a small but compelling retail offering, must be integrated to appeal to this larger market.
3. **Sustainable Businesses.** The current economics of downtown’s businesses are difficult to discern, given the lack of comparables and ownership. However, given downtown’s rent ranges, the indications are that few individual retail businesses in the Hohman Avenue corridor have sales exceeding \$200 PSF. Most are likely in the \$150 PSF. The following example assumes a 2,000 SF store with rent at \$14 PSF.

Assumptions	
Rents per SF	\$14
Store Size	2000 SF
Merchandise Cost	50%
Hours per Week	136
Blended Pay per Hour	\$8.50
Other Expenses	15%

Applying these assumptions, an operator would need to generate sales of \$200 PSF to achieve a sufficient return to adequately support store operations and to obtain a sufficient return on investment.

	<b>Sustainable Sales</b>	<b>Likely Sales</b>
	<b>\$200 PSF</b>	<b>\$150 PSF</b>
<b>Sales</b>	\$400,000	\$300,000
<b>Merchandise</b>	\$200,000	\$150,000
<b>Rent</b>	\$28,000	\$28,000
<b>Employees</b>	\$60,112	\$60,112
<b>Other Expenses</b>	\$60,000	\$45,000
<b>Net</b>	\$51,888	\$16,888

As Hammond begins to consider those strategies required to improve downtown’s economic viability, these same strategies require an understanding of what makes an individual business viable. Having strong businesses located downtown with sustainable business propositions will also help counter any negative perceptions about downtown as a suitable location.

4. **Traffic Generators:** In conjunction with potential office uses, businesses, entities, or uses, particularly for profit uses, which generate additional traffic and visibility for Hammond’s downtown are an important component of future viability.

## Summary

Hammond’s downtown, like all traditional commercial districts, faces a unique set of challenges in approaching revitalization, and as part of that effort, long-term business development and site redevelopment. Conversely, downtown Hammond has significant opportunities that will permit a dedicated and committed long-term effort to succeed.

To date, many of the downtown’s recent changes have been driven by projects to the east and west of the Hohman Avenue corridor. Tenancies remain weak in this central core, and vacancies are the most significant portion of downtown’s overall mix. The challenge for City officials and Hammond’s business community is to directly and systematically address downtown’s issues to mitigate perceptions. Despite a lack of certain development characteristics, investment near downtown has occurred. Considering future investments and uses that can succeed in downtown Hammond will be key.

Downtown Hammond is truly a unique environment with historic integrity. Because of this unique character, the district can be marketed as a distinctive place. Downtown Hammond’s best opportunity may be out of its past, returning to its broader market position northwest Indiana’s true central business district.