Market Analysis

Midtown Hattiesburg Master Plan

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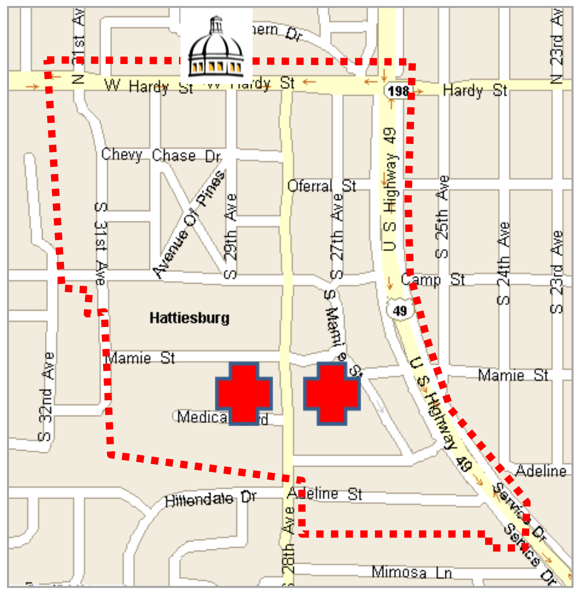
MIDTOWN HATTIESBURG MASTER PLAN
MARKET ANALYSIS

Introduction

Noell Consulting Group (NCG), a market research firm, is part of the Cooper-Code Studio consulting team tasked with creating a master plan for Midtown Hattiesburg. The market analysis completed by NCG examines the market potential for Midtown to become a walkable, mixed-use community within the heart of Hattiesburg during the immediate five-year period (2012 – 2016) and over the twenty-year time frame (2012 – 2032).



Midtown occupies a strategic location within Hattiesburg, benefiting from the immediate adjacency of two major medical institutions (Forrest General Hospital and Hattiesburg Clinic) and one of Mississippi's premier universities (The University of Southern Mississippi). These three institutions create significant demand potential for an array of residential and commercial land uses. But despite Midtown's strategic location, the area is a tremendously underutilized asset. This market analysis provides a solid understanding of the market opportunities that exist in Midtown today and going forward over the next decade and beyond.

It should be noted that the demand assumptions incorporated into this market analysis are based on net *new* growth in the market and the ability of Midtown to capture a percentage of that new growth. This market analysis does not include development potential based on enticing occupants of existing apartments, and retail or office uses to relocate to Midtown. As Midtown takes advantage of its strategic location and develops into a highly successful walkable, mixed-use community, there could be strong potential for existing users to choose to relocate to Midtown.

The following summarizes the results of the market analysis conducted by NCG as part of the larger Midtown Hattiesburg Master Plan. It addresses trends, conditions, and opportunities relative to the development of new for-sale and rental residential, retail, and office uses in Midtown. The results of this analysis inform future land planning, investments, and strategies relative to implementation of the Midtown Hattiesburg Master Plan in the coming years.

Study Area Strengths & Challenges

As noted above, Midtown Hattiesburg is strategically located in Hattiesburg and includes, or is adjacent to, three of the City's largest employers: Forrest General Hospital, Hattiesburg Clinic, and The University of Southern Mississippi (USM). Together these institutions employ more than 7,300 people, with incomes averaging around $51,000, well above Hattiesburg's median household income of $38,300 annually. These three institutions generate significant demand potential for residential and commercial products not only from employees, but from the estimated 14,850 USM students, as well as tens of thousands of annual visitors to Forrest General Hospital, Hattiesburg Clinic, and USM. These three institutions provide perhaps the greatest source of visibility and upside for Midtown. The following summarizes the magnitude of employment, student enrollment and visitors associated with Midtown's three major institutions:

- Forrest General Hospital:
  - 3,200 Employees/Staff
  - 30,600 Annual Admissions
  - 18,000 Visitors Per Month
- Hattiesburg Clinic:
  - 1,800 Employees/Staff
  - 50,000 Visitors Per Month
- University of Southern Mississippi:
  - 2,300 Employees/Faculty
  - 14,850 Students
  - 36,600 Visitors Per Month

Other strengths enjoyed by Midtown – strengths that can support redevelopment efforts – include:

- Solid access to the entire region via two major thoroughfares (Hardy Street and US Highway 49) and proximity to I-59;
- A low intensity land pattern that creates potential for redeveloping properties throughout Midtown;
- A lack of other mixed-use, pedestrian-oriented developments in the greater Hattiesburg market, a market product that is increasingly being desired by today's market audiences; and
- A strong sense of stability provided not only by the three large institutional anchors, but also by stable residential areas adjacent to Midtown.

The major challenges to Midtown Hattiesburg are primarily those not associated with demand, but with the feasibility of redevelopment. Two specific challenges need to be addressed for the re-creation of Midtown to occur:

1. Parcel Size: Outside of the holdings by the three major institutions, land ownership is highly fractured in the study area with the majority of parcels being quite small, requiring a significant amount of land assemblage to create a project with any significant size; and,

2. Land Cost: Adding to the challenge is the cost of land in the area, which has been in part driven up by the need for growth by Forrest General Hospital and Hattiesburg Clinic, as well as The University's acquisition of property south of Hardy Street; thus, land costs in the range of $10 - $15 per square feet ($400,000 - $600,000 per acre) are common along the higher visibility corridors of Midtown which temper the feasibility of redevelopment.

Going forward, strategies to deal with these two issues are critical for redevelopment and revitalization of Midtown to occur. These strategies could involve land lease deals on underutilized institutionally-owned land, creation of a catalytic development entity (an entity with oversight for redevelopment of Midtown), or other strategies to address these challenges for potential investment in the area.

Market Audiences

Midtown benefits from its exposure to a number of market audiences that can fuel demand for a variety of residential products, and retail, office and lodging uses (note: lodging uses, such as a hotel, are not studied in this report). The table below summarizes each of these audiences and the potential land use demands they might create.

Market Audience Matrix for Real Estate Products in Midtown Hattiesburg

			Potential Land Use Demands						
Audience	**Approximate Size**	**Characteristics**	**Retail**	**Dining**	**Rental Apts**	**For-Sale Hsg**	**Seniors Hsg**	**Office**	**Hotel / Lodging**
Area Employees	>10,500 in Midtown area	Highly-educated employees, 33% to 50% having incomes >$75,000	XX	XXX	XXX	XXX	X	X	X
USM Students	>14,850 students	75% currently live off-campus in apartments or with parents	XX	XXX	XXX	X	-	-	-
Hospital, Clinic & USM Visitors	>100,000 visitors per month	Mixture of short-term day visitors and overnight extended stay visitors	X	XX	-	-	-	-	XX
USM Alumni	>75,000 live in MS or adjacent states	Many visit for events; 12,000 over 60 are potential candidates for senior housing	X	X	-	X	XX	-	XX
Small Employers	750 Small office-using firms in City	Firms with <20 employees, including medical and general office users	X	X	XXX	X	-	XXX	X
Area Residents	28,700 nearby residents in 11,700 households	$29,000 median household incomes modest	XX	XX	XX	XX	XX	X	-
Regional Residents	150,000 residents in 55,000 households	$38,000 median household incomes with more disposable income	XX	XX	X	X	-	-	-
NOTE: Scale ranges from "X" (very limited audience support) to "XXX" (very strong audience support).									

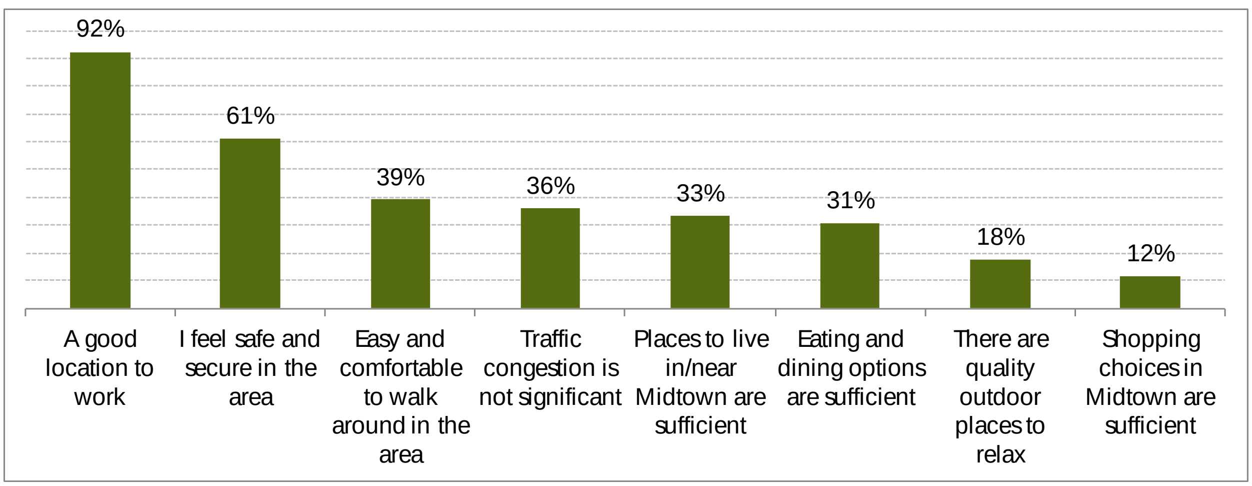
Source: Noell Consulting Group (2011).

Offering a lifestyle proposition that is unique in the market is critical to capturing the demand potential that the above audiences create. "Lifestyle proposition" is an environment that is more walkable, dynamic, interactive, and contains a mix of uses in close proximity to one another – attributes much of suburbia fails to offer (predominantly Hattiesburg west of I-59). Creation of this atmosphere, through provision of better sidewalks, parks and other gathering places, and through creation of a more compact urban development schematic with consistent design, is an important implementation goal for Midtown.

To better gauge interest level and demand potential relative to redevelopment efforts in Midtown, a consumer research survey of employees at the three major institutions (Forrest General Hospital, Hattiesburg Clinic, and The University of Southern Mississippi) was conducted via an Internet-based survey instrument. Given their number, income and employment proximity, these employees have the greatest potential to influence redevelopment in Midtown. The employee survey resulted in more than 600 completed survey responses, providing valuable insight into market opportunities and having significant influence on land and transportation planning efforts as part of the Midtown Master Plan. The employee survey and its results are a point of reference throughout the remainder of this report.

Based on the employee survey, employees overall are satisfied with Midtown, with 92 percent agreeing strongly or somewhat strongly that Midtown is a good location in which to work. They also feel it is relatively safe and secure, with over 60 percent of those surveyed agreeing with that sentiment.

Survey Respondents "Strongly Agreeing" or "Somewhat Agreeing" with Statements Relative to Midtown



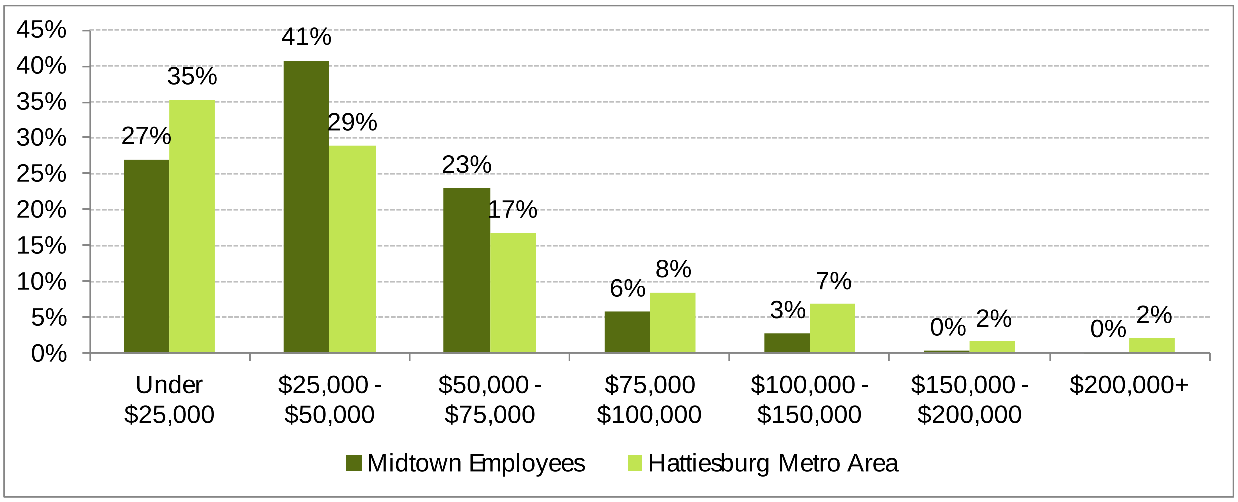
Source: Survey of employees (and faculty) at Forrest General Hospital, Hattiesburg Clinic and The University of Southern Mississippi conducted by Noell Consulting Group, 2011.

In contrast, Midtown employees are generally unhappy with a number of attributes about Midtown. Discontent is perhaps strongest relative to Midtown being a convenient place to work, as reflected in factors such as sufficient places nearby to live (only 33% agreed), access to quality dining (only 31% agreed), and sufficient shopping (only 12% agreed). Livability is also "dinged" in the area, with the majority of respondents feeling Midtown lacks quality outdoor places to relax and feeling the area is not an easy or comfortable place to walk around.

Going forward the Midtown planning efforts should focus on addressing these significant issues, as convenience and livability are two of the primary drivers influencing people's decisions on where to live, shop, work, and play.

Employees currently working in or in proximity to Midtown, primarily those working for the three major institutional users, represent the most significant source of demand across all product types, particularly residential and retail uses. As shown in the chart below, surveyed employees generally report incomes that align with those seen in the larger Hattiesburg metropolitan area, with a slightly greater concentration found with incomes between $25,000 and $75,000, and slightly less found earning more than $100,000. However, it is suspected that higher income earners were under-represented in the survey's reporting of incomes given the number of highly skilled medical employees at Forrest General and Hattiesburg Clinic.

Survey Respondents' Income Compared to Income of Hattiesburg Metropolitan Area Residents



Source: Employee survey conducted by Noell Consulting Group (2011) and Claritas data for the Hattiesburg MSA (comprised of Forrest and Lamar Counties).

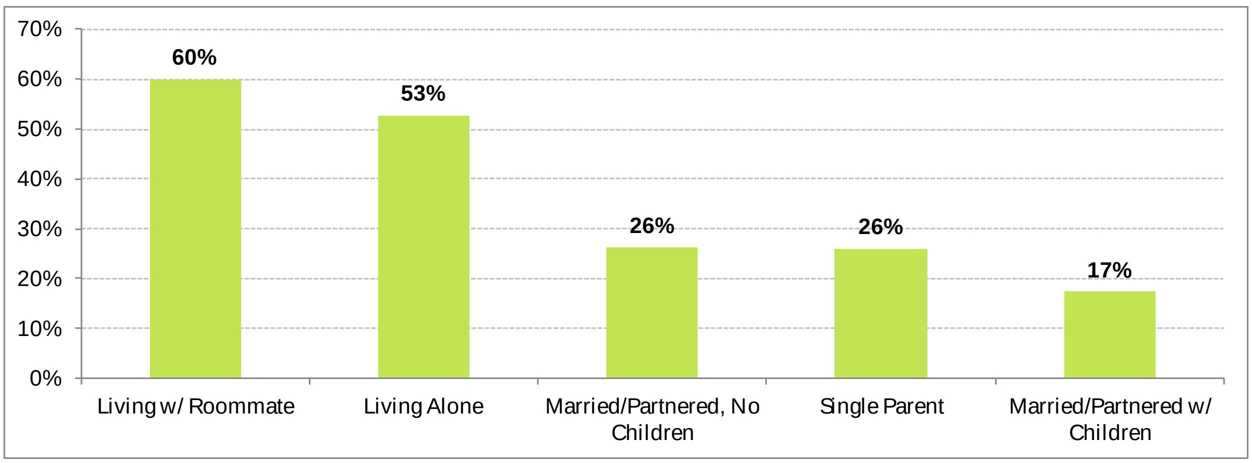
The timing for the redevelopment of Midtown is one that is very opportune. Throughout the nation more walkable, interactive infill development has gained significantly in popularity. These places have been fueled by:

- The rise of "Generation Y," the children of the "Baby Boomers," who increasingly prefer interactive environments with a mix of land uses to the more suburban environments in which they grew up;
- Significant growth of singles and couples without children, audiences who have a greater propensity for attached residential products (apartments, townhomes, and condominiums) or higher-density single-family homes and are driven more by convenience and their own lifestyle needs;
- Lifestyle shifts among "Baby Boomers," who have lived where it is best for the children (typically suburban styled cul-de-sac communities with large yards and higher-quality schools) and are now increasingly focusing on living in a location that better fits their own lifestyles;

- Retailers that have seen sales and performance of stores and restaurants in more dynamic locations (mixed-use locations) outperform those in conventional retail centers or in stand-alone locations; and
- Growth of smaller office-using firms that are typically more driven by lifestyle and convenience considerations.

The chart below illustrates, by type of household, the percent of survey respondents who would seriously consider living in Midtown if it offered a mixed-use environment. It is not surprising that over half of those persons currently living alone or with a roommate would seriously consider living in Midtown. To a much lesser degree, couples without children and single parents with children had interest in living in Midtown, but surprisingly even 25 percent of these households would seriously consider living in Midtown.

Survey Respondents Who Would "Very Seriously" Consider Living in Midtown if Mixed-Use Environment

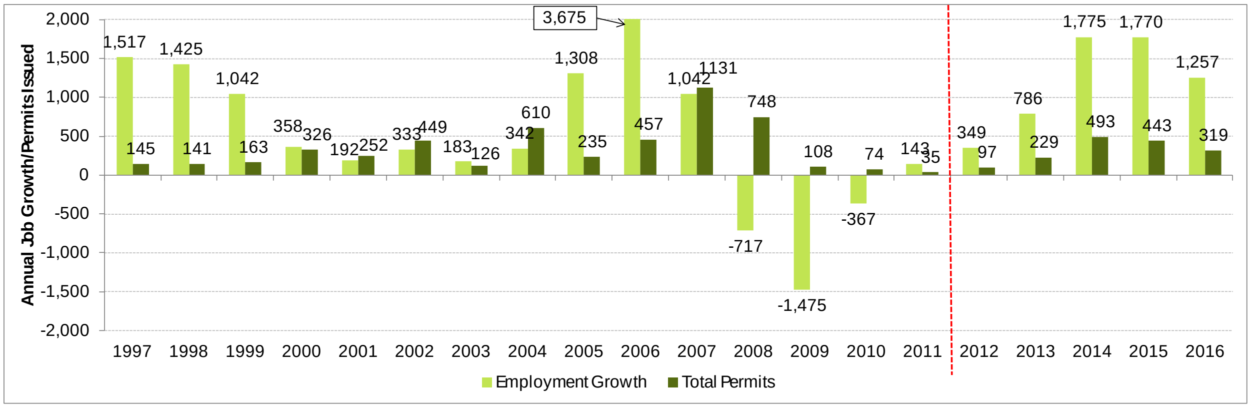


Source: Employee survey conducted by Noell Consulting Group, 2011.

The recent real estate crisis has changed the mindset of many in the market, locking more people out of homeownership and fueling greater demand for rental apartments. In addition, the downturn in the housing market and the subsequent loss in housing values, are forcing many to "re-look" at the notion that buying a home in a suburban setting is a safe real estate investment. These conditions help position Midtown to capture an increased share of the Hattiesburg housing market.

Job growth in the Hattiesburg metropolitan area has also been improving and is expected to be relatively solid in the coming years, fueling demand for new housing, retail, and office space. As shown in the chart below, Hattiesburg is expected to see job growth averaging around 1,200 net new jobs annually over the next five years; this is significantly higher than the 400 or so net new jobs averaged annually over the last decade. Among new jobs proposed are the planned 1,000 new jobs at the Stion Corporation, as well as anticipated growth in the Health Care, Professional Services, and Retail economic sectors.

Employment Growth and Total Building Permits, 1997 to 2016



SOURCE: Noell Consulting Group based on data obtained from Economy.com, and US Census Bureau.

While tempered by the size of Hattiesburg's market and its moderate rate of growth, demand potential clearly exists for the emergence of a new, mixed-use, walkable environment and Midtown represents the logical location for such an environment. Identifying the specific opportunities at hand and the means to create this environment are critical to capturing this potential and are the focus of the remainder of this market analysis report.

Rental Residential Opportunities

Rental residential often represents a solid starting point for any revitalization effort or town center concept. Renters are more likely to take a chance on a newly emerging, or re-emerging area, than home owners, and can provide the unique mixed-use flavor needed to drive interactive locations.

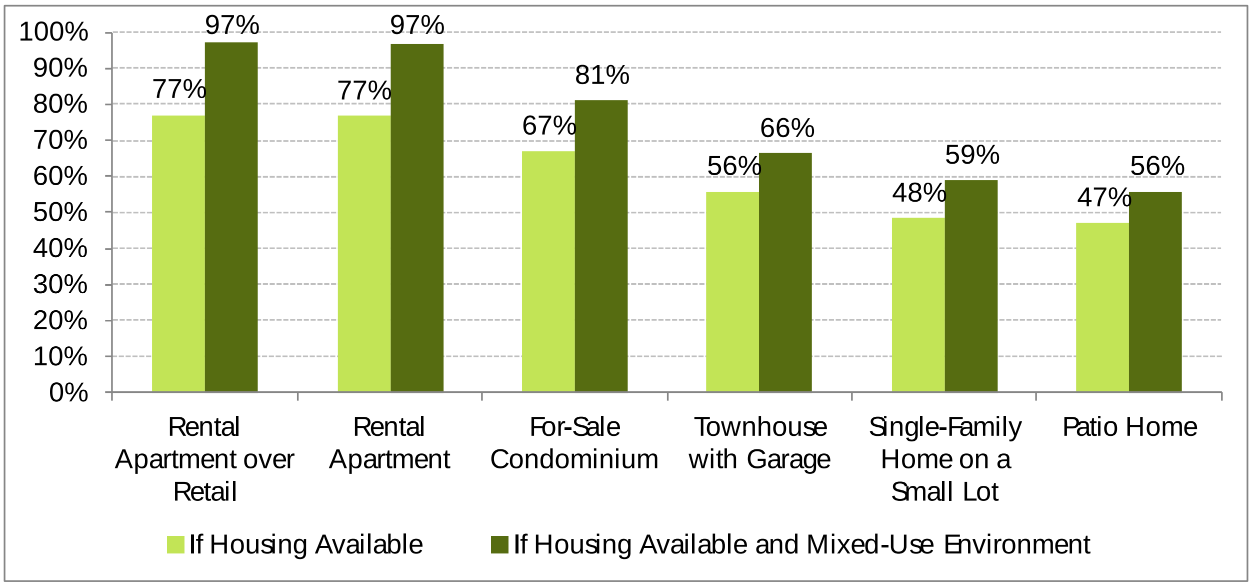
Rental residential is also experiencing increased demand today and will continue to do so in the coming years, thus making it a relatively strong opportunity for Midtown. There are three target audiences that new rental multifamily product could target:

1. Employees at Forrest General Hospital, Hattiesburg Clinic and The University of Southern Mississippi seeking to be closer to work;
2. Students desiring a higher-quality rental housing product, in close proximity to campus with a more interactive environment; and
3. Seniors in need of some type of alternate living situation, such as independent or assisted living facilities.

Conventional Apartment Opportunities

Employees at Forrest General Hospital, Hattiesburg Clinic and The University of Southern Mississippi seeking living opportunities in proximity to work, represent the most significant and desirable group to pursue for the conventional rental apartment product, particularly given nearly two-thirds of employees responding to the survey reporting earning less than $50,000 annually. Not surprisingly, nearly 80 percent of those surveyed who expressed an interest in a rental apartment as a desirable product in which to live stated they would be interested in living in Midtown; and 97 percent said they would seriously consider Midtown if rental product were available in a mixed-use environment.

Housing Product Types Desired by Survey Respondents Who Would "Seriously" Consider Living in Midtown



Source: Employee survey conducted by Noell Consulting Group, 2011.

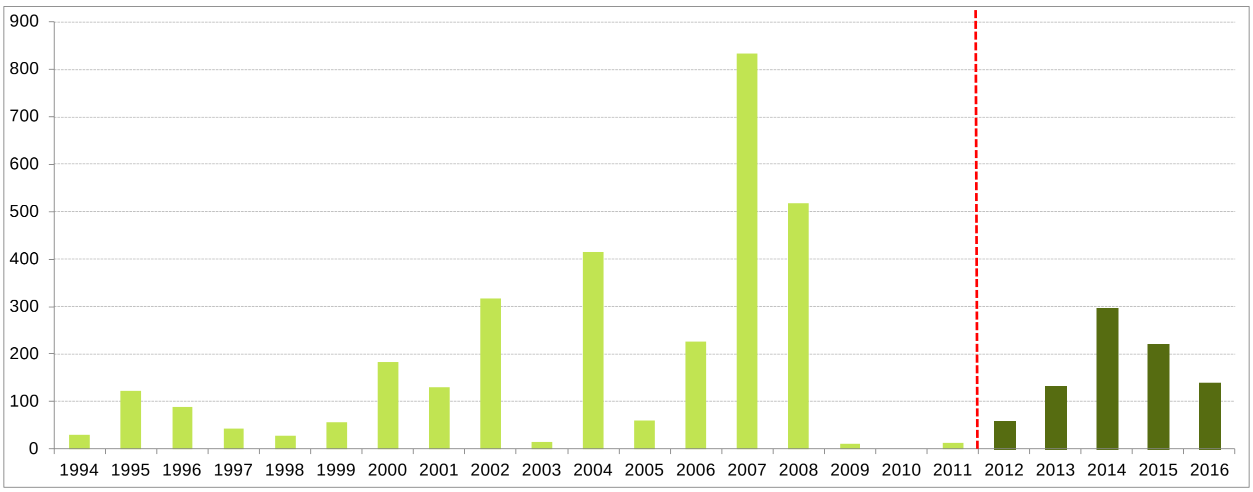
With only a few exceptions, the current Hattiesburg apartment market is dominated by freestanding, suburban garden communities that largely offer basic rental apartments with low absolute rents. None of the eight conventional rental apartment communities surveyed were located in a mixed-use environment. As such, rental apartments in Hattiesburg have served primarily as a price-alternative product for those unable to afford homeownership.

Rents in the market are relatively inexpensive, with the top communities achieving rents of around $.90 per square foot, although unit sizes being offered are relatively large, averaging more than 1,000 square feet in size. Nearly 70 percent of all market-rate apartment product offered is found in units with two or more bedrooms. Given that 40 percent of renters are households living alone, that indicates a potential opportunity to provide a rental apartment community with a stronger mix of one-bedroom units. This is a product that can achieve higher rents per square foot which is pivotal to constructing new apartments, particularly in mixed-use environments.

As shown in the chart below, multifamily residential construction in Hattiesburg (almost entirely comprised of rental product) peaked after Katrina in 2007 and 2008. Since that time, it has been relatively quiet as the market has struggled to absorb the significant supply added in those two years while also coping with slow to negative employment growth.

Going forward, the market is expected to perform at a more solid pace, generating support for over 800 new rental apartment units within the Hattiesburg metropolitan area between 2012 and 2016, which equates to almost 200 net new rental units annually for the region. This includes demand for both conventional rental apartments, as well as off-campus student housing, but does not incorporate demand potential for independent and/or assisted living units.

Multifamily Permits by Year in Metro Hattiesburg



Source: Data from the US Census and projections by Noell Consulting Group, 2011.

To estimate demand potential for new conventional (non-student) rental apartments for Midtown, two demand analyses were created:

- One method examines demand from market data, utilizing the aforementioned employment growth and estimated permit growth in the coming years; and
- A second method builds on the consumer research of the employee survey at the three major institutions and bases demand on those audiences only – audiences that are mostly likely to support initial multifamily offerings in Midtown.

Method One: Apartment Demand Based on Market Data

Utilizing data from Claritas, Inc. (a national demographics source), the US Census, and historic permitting trends, demand is estimated for new market-rate rental product for households having a minimum annual income of $35,000. Based on this analysis, annual market-rate demand for new apartment product in Hattiesburg is projected to average around 196 units per year, of which approximately half (96 units) could be captured in Midtown.

Midtown's capture is based on employee survey results in which roughly 65 percent of those surveyed would like to live in a location in which they could walk to retail uses, but assumes only 75 percent of those with that option would actually follow through on that stated preference.

Annual Midtown Rental Apartment Demand Based on Greater Hattiesburg Market Area Data

Total Households by Income:	$35,000 $50,000	$50,000 $75,000	$75,000 $100,000	$100,000 $150,000	$150,000 and Above	
Supportable Rents:	$758 $1,000	$1,000 $1,375	$1,375 $1,500	$1,500 $2,000	$2,000 and Above	Total
Existing Households	8,989	9,290	4,705	3,780	2,070	28,834
% Renters	36%	24%	14%	5%	11%	23%
Renter Households	3,263	2,257	649	193	234	6,596
Annual Turnover	35%	35%	35%	35%	35%	35%
Renters in Turnover	1,142	790	227	67	82	2,309
% Rent New	8%	8%	8%	8%	8%	
Annual Units by Rent Range	93	65	19	6	7	189
Annual New Households	97	133	95	112	69	506
% Renters	36%	24%	14%	5%	11%	
% Rent New (permits w/ 2x fair share)	8%	8%	8%	8%	8%	
Annual New HH's Renting New Apts	3	3	1	0	1	8
Total, New and Turnover HHs	**96**	**67**	**20**	**6**	**7**	**196**
Midtown Capture (Walk to Retail)	**49%**	**49%**	**49%**	**49%**	**49%**	
Supportable Midtown Apartments	**47**	**33**	**10**	**3**	**4**	**96**

Source: Noell Consulting Group, 2011.

Method Two: Apartment Demand Based on Survey of Midtown Employees

As noted earlier, 97 percent of those employees surveyed who indicated a significant interest in living in rental apartments, indicated a high willingness to live in Midtown if rental apartments were provided in a mixed-use setting. This creates significant demand potential and represents a foundation on which the second estimate of conventional rental apartment demand is estimated.

Incomes of surveyed employees were used and adjusted based on total household income ranges from $35,000 and above to estimate both the distribution of employees by income and the distribution of those employees who are renters (using renter propensity stated in the survey, which closely matches US Census data for the market overall).

After accounting for turnover in the market, two survey results were utilized to estimate potential captures for Midtown: those preferring to live closer to work and those preferring to live within walking distance to retail. On average, approximately 63 percent of renter households in the employee survey indicated a preference for one of these two factors (close to work or retail) – factors that are potentially unique to Midtown. Assuming an action rate of approximately 75 percent, annual demand from Midtown employees could be roughly 100 units, resulting in support for a 150 - 200 unit apartment community within a two-year time span.

Annual Midtown Rental Apartment Demand Based on Survey of Midtown Employees

Total Households by Income:	$35,000 $50,000	$50,000 $75,000	$75,000 $100,000	$100,000 $150,000	$150,000 and Above	
Supportable Rents:	$758 $1,000	$1,000 $1,375	$1,375 $1,500	$1,500 $2,000	$2,000 and Above	Total
Income Distribution of Employees	8.9%	16.7%	10.9%	13.2%	9.5%	
Total Employees by Income (3 Institutions)	496	932	611	737	533	5,592
% Renters (Survey Results)	38.4%	25.5%	11.2%	9.3%	7.8%	
Renter Households	190	237	68	68	42	606
Annual Turnover	35%	35%	35%	35%	35%	
Renter Households in Turnover	67	83	24	24	15	212
Midtown Capture (based on % closer to work/ walk to retail)	**63%**	**63%**	**63%**	**63%**	**63%**	
Supportable Midtown Apartments	**42**	**52**	**15**	**15**	**9**	**134**
75% Action Rate	**31**	**39**	**11**	**11**	**7**	**100**

Source: Noell Consulting Group, 2011.

Given all of the above, there is an opportunity to deliver approximately 250 market-rate rental apartments in Midtown, some of which can be above ground-floor retail. With a shift in unit mixes to smaller unit types (more one-bedroom units than are conventionally offered) and assuming a premium can be achieved for rental product in a mixed-use environment, it is possible that a rental product can be delivered at $1.05 per square foot, roughly a 10 percent premium to the top of the conventional garden apartment market presently in Hattiesburg. However, at these rental rates, parking for this apartment product will need to be provided in surface lots, as structured parking is cost-prohibitive without some type of subsidy. Should some type of alternate strategy, such as a land lease deal or some type of shared parking arrangement be achieved, delivery of an apartment product with structured or reduced parking requirements could be a possibility.

Student Rental Apartments

In addition to its employees, The University of Southern Mississippi represents a demand source for a second market audience – students seeking off-campus housing close to The University. The most recent data provided by The University indicates that only about 3,590 of the 14,850 students enrolled during the 2011-2012 school year live on campus, with the remainder living off-campus either at home with their parents or alone or with roommates, largely in rental apartments. There is an opportunity for The University to tap into this large base of off-campus students by helping to create a residential and commercial environment in Midtown. This would not only be attractive to many of those commuting to campus today, but to future students who are looking for a university setting in proximity to an active “downtown” (potentially going elsewhere if they do not find such a lifestyle).

The University of Southern Mississippi is expected to grow at an annual rate of one percent in the coming years; this is a rate that should result in The University growing by about 3,500 students between 2012 and 2020. Currently, The University is planning to add only about 500 net new beds (not including replacement of existing, older dorm units) in the foreseeable future. This will result in approximately 3,000 additional students living off-campus or commuting – this is in addition to the roughly 11,260 already living off campus today.

Overall, student housing options off campus are fairly limited, with most rental apartment product being older, outdated garden apartments of mixed quality largely located to the north and west of campus. Five of the newer student rental apartment communities were surveyed to better understand the performance of that market. These apartment products are performing stronger than the older conventional product, with the top communities experiencing an occupancy rate between 85 percent and 100 percent and rents averaging close to $1.10 per square foot. Four of the five apartment communities came online between 2006 and 2008 and appear to have created a short-term oversupply, which is expected to be absorbed over the next two to three years. However, none of these apartment products is located within a mixed-use environment and few, if any, are walkable to any significant retail, restaurants, etc.

Like conventional rental apartments, a demand model was created that looks at student growth in the coming years and nets out both planned on-campus housing as well as students choosing to live at home and commuting to campus. As can be seen in the model below, demand for new student-oriented rental apartments in Midtown will not be sufficient to support a substantially-sized complex until around 2016. However, one element that cannot be accurately projected is the potential of a new Midtown apartment complex geared to attracting existing students who would choose to relocate in order to live closer to campus.

Student Housing Demand Potential Based on Increased USM Student Enrollment

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Live on Campus	3,590	3,590	3,590	3,715	3,840	3,840	3,840	3,840	3,965	4,090
Live with Parents	5,999	6,197	6,399	6,541	6,687	6,905	7,129	7,358	7,527	7,701
Live Off Campus	5,261	5,435	5,612	5,736	5,865	6,056	6,252	6,454	6,601	6,754
Total Enrollment	**14,850**	**15,221**	**15,602**	**15,992**	**16,392**	**16,801**	**17,221**	**17,652**	**18,093**	**18,546**
Cumulative Increase of Off-Campus Hsg from 2011 (Beds)		173	351	475	604	795	991	1,192	1,340	1,493
Potential Capture, Midtown Area	33%	57	116	157	199	262	327	393	442	493
Avg, 2.5 Beds/Unit		23	46	63	80	**105**	**131**	**157**	**177**	**197**

Source: Student data provided by The University of Southern Mississippi with housing projections by Noell Consulting Group, 2011.

Care must be taken when developing student housing in Midtown. While students certainly create demand potential, there is some sensitivity by those seeking conventional for-sale or rental product to living too close to a large student population. Nearly 27 percent of employees surveyed indicated separation of student and non-student housing would be a factor that would increase their interest in living in Midtown. Location of student-oriented housing away from employee-oriented rental units will be an important consideration in the planning efforts for Midtown. In addition, student-oriented housing should not be a leader for redevelopment efforts in Midtown, but occur after the area has gained more significant momentum.

Senior Housing

Over the coming five to ten years, Midtown will become increasingly attractive for seniors housing, including independent and assisted living. The presence of major medical facilities is already a significant factor and the ability to tap into the lifelong learning opportunities at The University, as well as the potential to create an interactive mixed-use environment, combine to make Midtown a strong location for independent and assisted living facilities going forward. In addition, neighborhoods to the west and south of Midtown feature a fairly significant base of aging households that, in the coming decade, may be in a position to transition from home ownership to some type of structured rental environment focused on senior living.

Today, some fairly substantial vacancies exist in two of the newer, more modern senior housing products developed in Hattiesburg (Emeritus Forrest Park at Pine Meadow and Provision Living). Given the downturn in the economy, this is something typical as many opt to either stay in place or live with children until the economy improves along with the resell potential of their existing homes. Over time, however, occupancy rates are expected to return to more normal levels and demand potential for new product will grow.

Senior Household Demand	
Total Senior Households, Hattiesburg Metro	11,042
Seniors 65+, $25k Income +	5,767
% Not in Nursing Home/Assisted Living/Living with Family	76%
Renter Propensity	23.4%
Preference for Age-Restricted Apartments	43.0%
Annual Turnover	25.2%
Total Supportable Age-Restricted Apartments	111
Growth of Age/Income-Qualified Seniors Preferring Age-Restricted Apts	31
Total Annual Demand	142
Factoring in Lost Seniors (at 5%)	150
Factoring in 10% Vacancy Rate	166
Number of Competitive Indp/Ass. Senior Living Facilities in Hattiesburg	2.5
Study Area Fair Share Capture	29%
Net Annual Demand Potential at Fair Share Capture	48
Two-Year Lease-Up Period	**95**
Total Units Assuming Add'l 30% Assisted Living Units	**124**

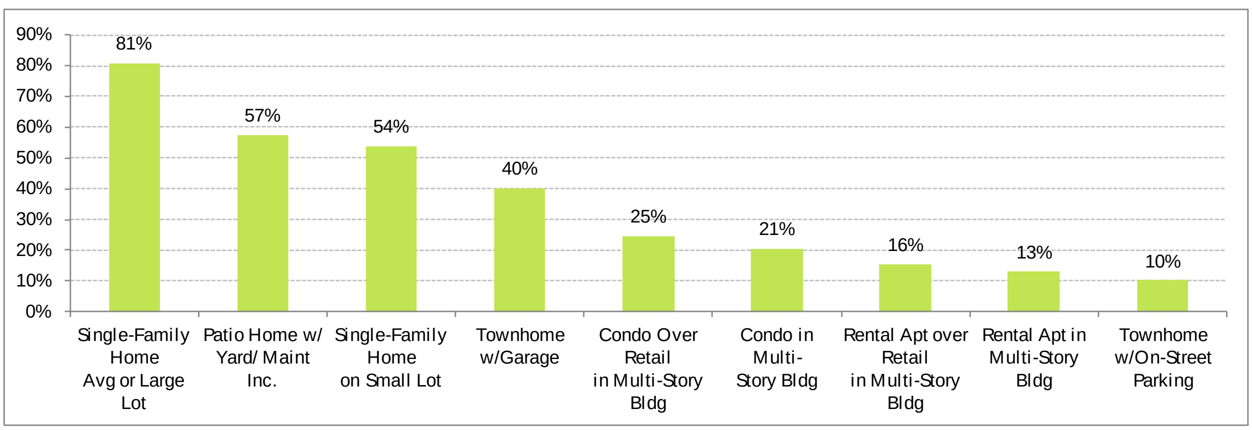
Within approximately five to seven years, the demand for new independent and assisted living housing is expected to be sufficient to support such development in Midtown. Ideally it would be a location accessible to the center of Midtown, yet not truly in the middle of everything, and one that is proximate to the Hattiesburg Clinic and Forrest General Hospital. This product can also function as a transition from higher-intensity rental apartment and commercial uses closer to Hardy Street to lower-density single-family uses bordering Midtown on the west and south.

For-Sale Residential Opportunities

For-sale residential also represents a growing opportunity for Midtown, but one that requires a strong lifestyle proposition – a vibrant, mixed-use atmosphere – to be fully realized. Currently, larger-lot, single-family homes are the primary product offering in Hattiesburg. Not surprising, the survey of area employees indicates large-lot, single-family homes remain the most desirable product in the market. More than 80 percent of those surveyed indicate they would "very seriously" or "somewhat seriously" consider a large-lot, single-family home far more than any other residential product.

With that said, surveyed employees indicated significant interest in other types of for-sale residential products (see chart below), with more than half indicating an interest in small-lot, single-family homes or patio homes, and 40 percent, a surprisingly high number, indicating an interest in purchasing a townhome with a garage below. Interest in these products is important as delivery of single-family product on large lots is cost-prohibitive within Midtown; and thus these higher-intensity, small lot, single-family home and townhome products represent the primary for-sale residential product potential for Midtown.

Housing Product Types Desired by Survey Respondents (Responding "Very" or "Somewhat" Interested)



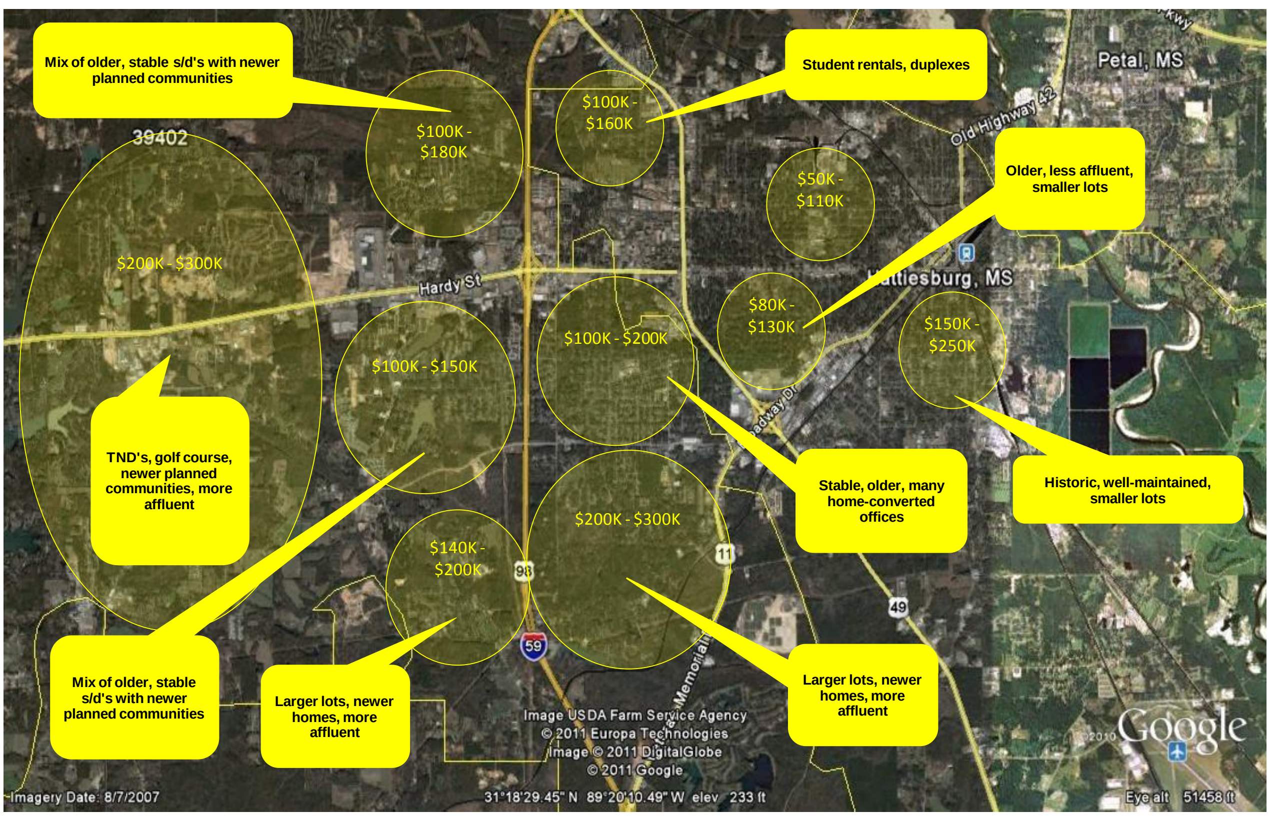
Source: Employee survey conducted by Noell Consulting Group, 2011.

The Hattiesburg market today is quite homogenous, with large-lot, single-family home product accounting for the majority of the housing supply. There is little to no small-lot, single-family home, townhome, or condominium product available in the Hattiesburg market today. Of the available patio/small-lot, single-family home product in the Hattiesburg market, most is located west of I-59 and functions either as "value play" product for first-time homeowners priced at the lowest end of the new home spectrum (around $110,000 to $120,000), or as "down-sizing" product for empty nesters priced at around $180,000 to $200,000. However, most of these developments lack a critical lifestyle component – the sense of location, orientation, and/or scale needed to make lifestyle products highly attractive to prospective buyers.

The townhome product, something indicated as being potentially attractive to 40 percent of those surveyed, is practically non-existent in the Hattiesburg market today and truly represents an opportunity in Midtown. This product is capable of supporting higher land costs and is truly more attractive to younger buyers, particularly singles, who have little to no interest in yard maintenance. Critical to the success of the townhome product is providing a garage with the unit. Currently, virtually all townhome-like product offered in the Hattiesburg market can be found in one-story units priced between $120,000 and $160,000 and thus appeals to both younger and more mature audiences. Townhome product developed in Midtown would need to be delivered at higher intensities due to land costs and thus would need to be multi-story product with garages underneath.

Finally, condominium product is virtually non-existent in the local housing market. This is due to the low single-family home prices found throughout Hattiesburg and particularly in older, infill areas east of I-59. As shown in the map below, much of resale product east of I-59 is priced below $200,000, with abundant product available between $100,000 and $150,000.

Residential Developments and Home Sales Prices in Hattiesburg

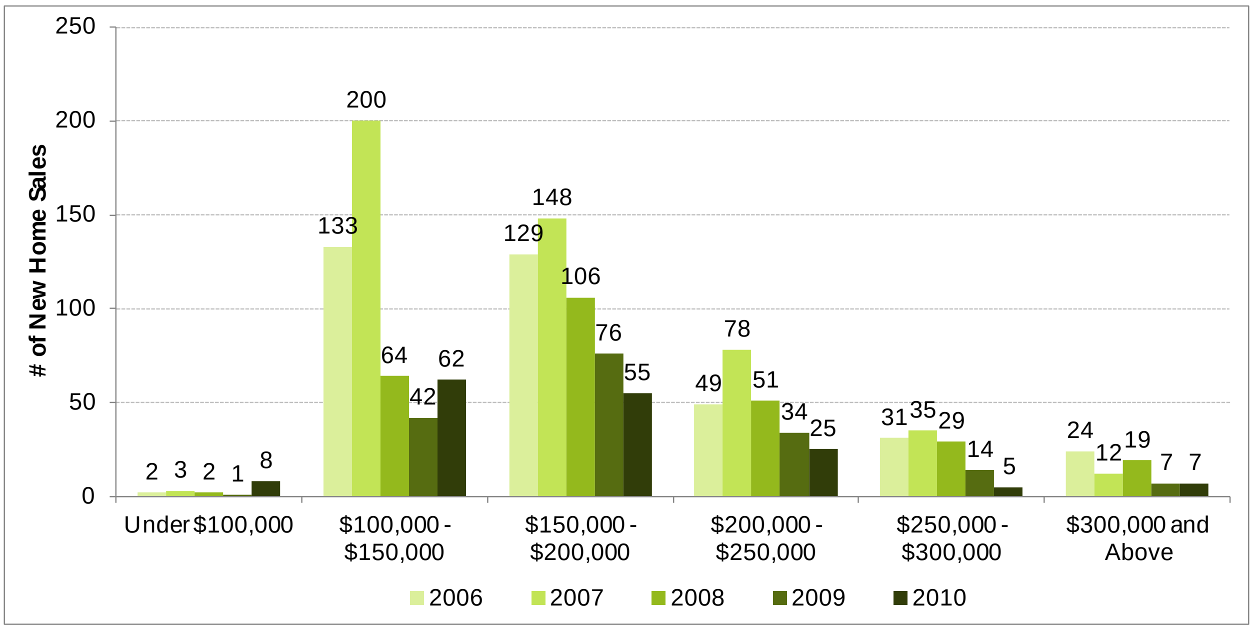


Source: Noell Consulting Group, 2011.

For many potential buyers, the purchase of a smaller-lot, single-family patio home or townhome may be somewhat viewed as a trade-off for a single-family home on a larger lot and thus they will expect value to be delivered via a greater sense of lifestyle – walkable, dynamic, interactive, mixed-use neighborhood – a lifestyle that largely does not exist in the Midtown market today. Given the relatively modest home prices in most areas east of I-59, providing that lifestyle will be critical in order to maximize potential interest in new owner-occupied housing product in Midtown.

As shown on the chart below, the majority of new home sales in the Hattiesburg area are priced between $100,000 and $200,000, a price point which accounts for nearly 70 percent of the market. The overwhelming majority of this product is single-family homes delivered on typical suburban lots (12,000 square feet or larger) west of I-59 in amenity-lacking subdivisions or developments with golf courses or other amenities.

New Home Sales in Hattiesburg Metropolitan Area, 2006 - 2010



NOTE: Data for new home sales prices for homes priced at $300,000 and above are lower due to many of these being custom homes – those in which a lot is purchased and a custom home is designed for that lot – thus they never appear in data for "new home sales."

Source: Hattiesburg Multiple Listings Service.

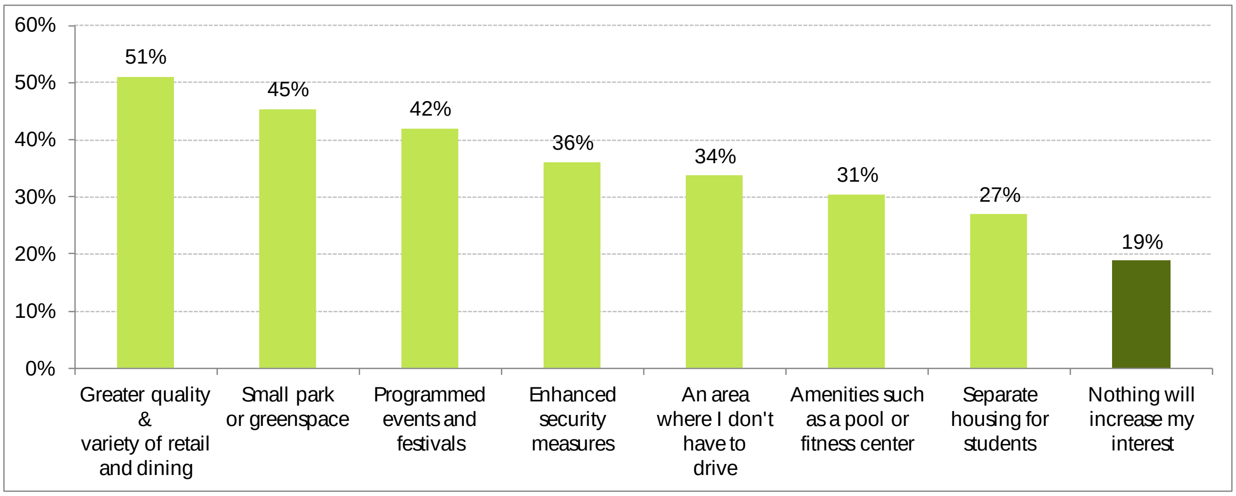
Over the past several years the market has slowed considerably as the economy in Hattiesburg and the US has continued to struggle. The severe problems in the housing market take their toll on potential buyers, many of whom are living in homes they can no longer afford. New home sales in Hattiesburg, which in the past have averaged around 300 units annually (peaking at 476 units in 2007), slowed to roughly 160 units in 2010 (the most recent year for which new home sales data are available).

Midtown's opportunity lies not in providing a lower-cost product than that found elsewhere in the market, but providing one that offers a unique lifestyle proposition. Surveyed employees provide solid insight into the means by which this lifestyle can be created in Midtown. As shown on the chart on the following page, those elements that would increase potential buyers' interest in living in Midtown are:

- An environment that is walkable, particularly to retail and dining opportunities;
- One that is highly active and engaging; and
- One that features events, parks, and open spaces.

Most encouraging is that only 19 percent of those surveyed indicate no interest whatsoever in living in Midtown, creating a real opportunity to influence the market.

Quality of Life Elements That Would Increase Survey Respondents' Interest in Living in Midtown



Source: Employee survey conducted by Noell Consulting Group, 2011.

As part of the market analysis, a demand model was created to estimate potential demand for new for-sale homes (regardless of product type) in Hattiesburg metropolitan area. As shown in the table below, new home demand is expected to average around 320 units annually over the next five to ten years, with the greatest depth in the market being for product priced between $140,000 and $190,000 (33 percent of the total market) and nearly 80 percent of demand existing for homes priced under $250,000.

With these low prices, the need for price-alternative products such as condominiums is greatly reduced, particularly given the lack of walkable, mixed-use environments that exists today within Hattiesburg. Further "game-day" condominiums (units purchased by visiting USM alumnus attending sporting and other special USM events) have not been developed in Hattiesburg to date as has been seen in other, larger football-oriented universities (e.g. Alabama, Auburn, and LSU). Game-day products in those markets – products that appeal to affluent households seeking a second home proximate to the university football stadium – while initially well-received, have struggled somewhat to retain value and continued sales momentum (due in part to the changes in easily accessible financing) and are largely seen as having a narrow range of market appeal.

Potential Annual New Home (For-Sale) Demand in Hattiesburg Metropolitan Area

Total Households by Income	$35,000 $50,000	$50,000 $75,000	$75,000 $100,000	$100,000 $150,000	$150,000 and Above	
Home Price Affordability	$100,000 $140,000	$140,000 $190,000	$190,000 $250,000	$250,000 $375,000	$375,000 and Above	Total
Existing Households	8,487	8,419	4,085	3,030	1,530	25,550
% Owners	64%	76%	86%	95%	89%	76%
Owner Households	5,406	6,373	3,521	2,876	1,357	19,533
Annual Turnover	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%
Owners in Turnover	476	561	310	253	119	1,719
% Buy New	14%	16%	18%	12%	11%	
Annual New Homes by Price Range	67	92	57	32	13	259
Annual New Households	97	133	95	112	69	506
% Owners	64%	76%	86%	95%	89%	
% Buy New	14%	16%	18%	12%	11%	
Annual New HH's Buying New Homes	9	16	15	13	6	60
Total, New and Turnover HHs	**75**	**108**	**72**	**45**	**19**	**319**

Source: Noell Consulting Group, 2011.

To estimate Midtown's potential demand for new, for-sale residential products, the larger metropolitan demand estimates were used along with the results of the consumer research survey conducted of employees at Forrest General Hospital, Hattiesburg Clinic and The University of Southern Mississippi. Demand captures for Midtown were undertaken for two groups: those employed in Midtown (who had higher interest level and exposure to Midtown) and those employed elsewhere (who had less exposure to Midtown).

Based on an analysis of the market, household income, and the results of the consumer research survey conducted of employees, three types of new, for-sale residential products could be offered in Midtown:

- Small-lot single-family homes in areas of the study area that border existing single-family homes;
- Two price levels of townhome products that would form the most significant offering of for-sale homes in Midtown; and
- A limited offering of condominium flats offered in the more central, amenity rich areas of Midtown.

Shown below, is the "potential annual new home (for-sale) demand" for Midtown. As noted earlier, small-lot, single-family homes and townhomes represent a more significant opportunity in the near-term given their broader market appeal than do condominiums, which will require a much greater sense of lifestyle and value before they make financial sense as a development opportunity in Midtown.

Potential Annual New Home (For-Sale) Demand in Midtown

Total Household Income	$35,000 $50,000	$50,000 $75,000	$75,000 $100,000	$100,000 $150,000	$150,000 and Above	
Home Price Affordability	**$100,000 $140,000**	**$140,000 $190,000**	**$190,000 $250,000**	**$250,000 $375,000**	**$375,000 and Above**	**Total Annual Demand (Units)**
Annual Housing Demand						
Small Lot Single Family		9	7	7	4	26
Townhomes		7	4	4	3	18
Condominium Flats		4	3	2	2	11

Source: Noell Consulting Group, 2011.

It should be noted that the above Midtown "potential" annual demand will be reduced by certain market constraints. One is Midtown's elevated land costs which increase the cost of the housing making it less affordable and thus limiting the number of potential qualified purchasers (it is estimated that small lot, single family homes may need to be priced at starting at $275,000 in Midtown). An additional constraint is the lower development interest that will occur during the initial years of Midtown's transformation into a walkable, mixed-use community.

The table below is the "adjusted" annual new home demand for Midtown. This reflects the degree to which the above noted constraints are projected to reduce the "potential" annual new home (for-sale) demand in Midtown.

Adjusted Annual and Incremental New Home (For-Sale) Demand in Midtown

Land use	Target Sales Price	Adjusted Annual Demand	Initial 5-Year Demand	Future 5-Year Demand	Total 20-Year Demand	Development Intensity
Small-Lot Single Family (units)	$275,000	7	35	70	245	1 -1.5 stories 45 x 90 ft. lots 7 - 9 per acre
Townhomes (units)	Entry: $170,000 Luxury: $210,000	8	41	55	206	2 - 3 stories With Garage 12 - 16 per acre
Condominium Flats (units)	$165,000	7	34	43	163	3 - 4 stories Not over retail 20 - 30 per acre

Source: Noell Consulting Group, 2011.

It should be recognized that the above "potential" annual demand shows more small-lot, single family housing potential than can be physically accommodated within Midtown over the 20-year period. This is simply what Midtown could potentially capture if land were available. Also, the above annual demand does not include potential second-home purchases (like "game-day" condominiums) from outside of the market. Although, this is a limited market source, there is potential support for a smaller condominium offering, particularly associated with the planned University hotel – an offering that could provide a greater sense of lifestyle given the ability to utilize hotel amenities and services.

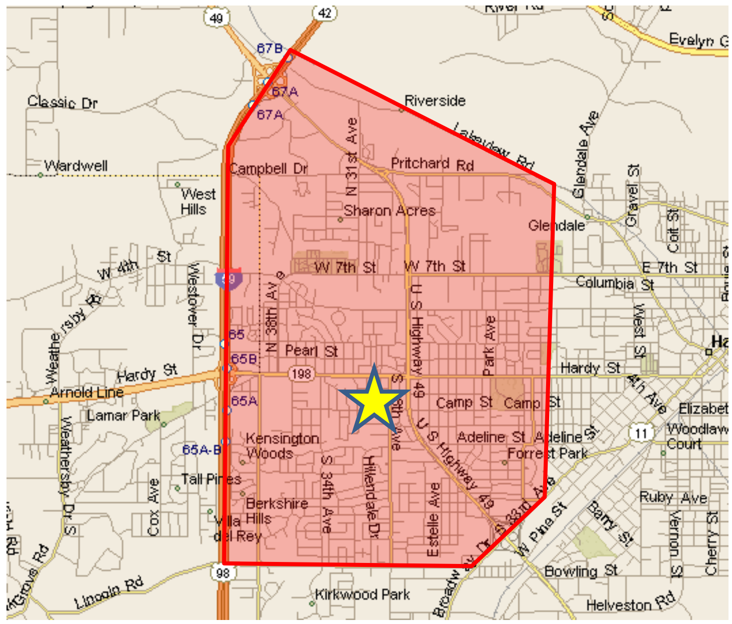
Retail Development Opportunities

As has been discussed earlier in this report, retail (shops, restaurants and services) represents a land use viewed by many as being critical to the creation of a unique lifestyle proposition in Midtown. It is also a land use that draws support from perhaps the broadest range of sources (local employees, area residents, students, hospital, clinic and university visitors, regional residents, etc.) of all land uses and has significant potential to be the defining land use in the Midtown in the years to come.

Today, Midtown features a limited offering of retail and dining uses. It lacks both larger properties needed for more sizable retail uses (e.g. a grocery store), and amenities on which a stronger dining environment could be based (no park orientations, central square, etc.). Instead, retail in Midtown can be best defined as a collection of aging, free-standing properties that struggle to compete with newer offerings westward along Hardy and further west across I-59. These areas feature large parcels that can accommodate major retail centers and outparcels for chain restaurants, geared toward higher income households and the bulk of new residential growth occurring in Hattiesburg. While retail development west of I-59 is due in part to the residential growth occurring there, much of the retail demand comes from existing residential areas east of I-59; areas that once were home to larger, more significant retail uses which have since shifted west to follow more young family households and more affluent households.

Based on surveys of area retail centers and interviews with area brokers, Hattiesburg appears to be somewhat over-retailed with overall occupancies being somewhere around 80 to 85 percent. Newer retail centers and outparcels along Hardy Street west of I-59 attract patrons away from aging retail centers east of I-59 as well as from some older centers to the west. "Top of the market" rents – those seen by the newest, best executed properties – average around \$18 - \$20 per square foot (triple net). The majority of the spaces achieving this rent can be found west of I-59 (where the bulk of the newest properties are); although some new retail development east of I-59 has been able to achieve rents in line with the "west of I-59" market. The majority of retail space east of I-59, however, is located in aging retail properties and only achieves rents of around \$12 per square foot. Given the latent demand potential existing in Midtown and the adjacent residential neighborhoods (employees, students, residents), and the stronger rents seen at newer establishments east of I-59, it is fair to say that retail in the Midtown is underperforming today.

The overwhelming majority of retail offerings in the Hattiesburg market today offers little sense of place and character, with most delivered either as free-standing uses or developed in prototypical shopping center formats with overly abundant parking and no mixing of land uses. Like their predecessors, these centers will age and eventually lose market share to newer, more modern centers, as they slide into decreased maintenance and market viability. Only one retail offering in the market today, Walnut Square, offers any sense of location and character. That center is very small and is in a challenging location and thus has struggled to compete in the market and achieve rent levels and occupancies needed to justify its higher construction costs.



The aforementioned retail conditions, while not desirable, do create a significant opportunity for Midtown, in that no project to date has been able to deliver a sense of place in a location that is viable and attractive from a tenant perspective. Midtown's access to numerous market sources and its high level of visibility (at an intersection of two major thoroughfares) creates an opportunity unique in the market and one that, with solid execution, can exceed other offerings in the market. Indeed national and regional retail chains (including restaurant chains) and local, independent retailers are increasingly favoring open air, mixed-use environments – those offering a strong sense of place and location – over traditional shopping centers and malls. Such an environment could be ideal for Midtown, but will require both some type of critical mass (land assembly being a challenge) and a major anchor tenant.

As with residential land uses, retail demand potential was estimated from an array of sources, including area residents (the largest potential source of demand), employees, and students. Together, these groups should account for the large majority of retail demand potential, including dining uses in Midtown. A well-executed project could draw significant support from beyond the local market, but for demand potential purposes, only support from the local market sources was considered, including the local trade area (see trade area map).

Based on retail demand modeling, it is estimated that approximately 76,000 square feet of net retail demand exists in Midtown today (80,000 when accounting for a reasonable vacancy rate) with an additional 19,000 square feet of net new demand being supportable every five years or so. Retail offerings in Midtown should be primarily focused on Hardy Street and along US Highway 49, with some retail offered around a potential park or central square within Midtown. Roughly 40 percent of this demand is for restaurant/dining uses, which is particularly supportable from area employees and students.

Retail Demand Methodology

Local Residents	Area Employees	Students
Estimate Total Number of Residents	Estimate Total Number of Employees	Estimate Number of Students
Identify Expenditure Potential by Store Type	Utilize Survey Data and National Expenditure Data for Expenses at To, and From Work	Utilize Similar Data, Adjusting Downward to Account for Reduced Expenditure Potential
Convert Sales into Supportable Square Feet via National Averages for Sales by Store Type	Assume Captures of Demand for Midtown, Accounting for Sales within Institutions (Largely Food Sales)	Assume Captures of Demand for Midtown (Accounting for On-Campus Food Sales)
Net Out Non-Applicable Store Types (e.g. Mall Stores, Wal Mart)	Convert Captured Sales Dollars to Supportable Square Feet via National Sales by Store Type Data	Convert Captured Sales Dollars to Supportable Square Feet via National Sales by Store Type Data
Net Out Existing Retail Stores in the Area		
Estimate an Achievable Capture of Sales by Store Type in Midtown		

Source: Noell Consulting Group, 2011.

This demand potential does not include retail demand sources beyond the three primary audiences identified above and should thus be considered potentially conservative. Furthermore, by creating a strong sense of place and delivering well designed and executed space, Midtown will tap into the regional retail demand audience, particularly given the lack of other similar destinations in the Hattiesburg market. The majority of this outside demand would likely be for dining opportunities, as restaurants in similar environments elsewhere have had a greater ability to penetrate the regional market.

Although the demand models indicate a lack of demand for a new grocery store east of I-59, an opportunity exists to capture a grocery in Midtown. Existing grocery offerings east of I-59 are largely outdated and/or located on inferior properties as compared to a potential location in Midtown. Creation of a strong site within Midtown (along Hardy or US Highway 49) could be highly attractive to an existing area grocer and could create a retail anchor lacking in Midtown today. Of course locating a grocery store in Midtown is no easy feat; such an effort would likely require significant land assemblage and careful design to balance parking and space requirements with Midtown's placemaking and design goals.

Office Development Opportunities

As noted earlier in the report, people today are increasingly looking for a sense of place and quality of life that mixed-use and infill locations can provide. This is true not only of residential location decisions, but is also increasingly true of office locations. Increasing numbers of firms are opting for mixed-use environments that are convenient, where employees can walk to restaurants and shops, where they can sit outside and enjoy lunch or coffee, and where they can take a walk or jog during lunch.

A redeveloped Midtown has the potential to offer all of these attributes and thus can significantly increase its attractiveness to Hattiesburg's office users, particularly smaller firms – those that tend to be driven significantly by quality of life factors more than some other larger employers. Indeed, the presence of two major medical institutions and adjacency of The University of Southern Mississippi should be attractive to a number of firms.

Midtown today largely appeals to medical-related firms, including independent doctor's offices and those uses that service or relate to the Hospital and Clinic. Many of these uses have landed south of Midtown as a result of an inability to develop more sizable space within Midtown. Recapturing some of these uses, many located along South 28th Avenue, is a built-in opportunity for Midtown and one that should be further explored.

Non-medical office uses have largely shifted west along Hardy to areas around and west of I-59. These uses have located in smaller, freestanding office properties that while closer to executive housing (a major driver of office location decisions) offer little in terms of quality of life and convenience, with auto travel required for all errands, lunches, etc. A newly created Midtown, one that offers a greater sense of location, character, and convenience, should be highly attractive to many of these non-medical uses. As with retail, a major challenge can be found in the low rents found in the market, with many tenants paying around $10 - $13 per square foot, a rate that may be too low to support new construction. While a challenge, well-designed office space, including space that may be vertically-integrated with retail or residential uses, should be able to achieve premium rents compared to older, freestanding office uses and thus should be feasible from a financial perspective.

Industry Code Description	Estimated Unmet & Future Demand By SF	Estimated Midtown Capture Potential	Midtown Dmd Pot. By 2020
Insurance Carriers and Related Act.	14,300	40%	5,720
Real Estate	13,200	40%	5,280
Rental and Leasing Services	10,000	40%	4,000
Offices of Lawyers	13,000	40%	5,200
Offices of CPAs	5,100	40%	2,040
Arch, Eng, and Related services	6,800	40%	2,720
Office of Physicians	23,100	50%	11,550
Office of Dentists	13,200	50%	6,600
Office of Other Health Practitioners	8,000	50%	4,000
Total:	**129,200**	**43%**	**47,110**

A demand model was created to examine demand potential for small office uses (those with 20 employees or less), based on established relationships between the number of employees in each industry sector at the state level and the corresponding population at that same level, essentially establishing supportable small office firms ratios that can be applied to Hattiesburg. Estimated growth within Hattiesburg between today and 2020 was used to estimate the net incremental supportable small office employees and square feet demanded, with a 40 percent to 50 percent capture being applied to Midtown depending on the industry sector being examined (medical firms achieving the higher capture rates).

As shown in the demand summary above, Midtown could support approximately 47,000 square feet of additional office space (49,000 when applying a 5 percent vacancy rate) over the next decade. This assumes investments in Midtown are made that create the sense of place and lifestyle needed to attract these tenants and also assumes no "pirating" of existing tenants from other areas of Hattiesburg, which is a real possibility.

Office space should be delivered in smaller properties and should be integrated into the ground floor of a residential building or on the second floor of a property with retail below. Medical uses will need to be either on the first floor of a property or in an elevator-accessed building, which may be challenging given the need to deliver space in relatively small increments.

Demand Summary

In summary, Midtown has a moderate, yet very real, demand potential for residential, retail and office uses. It should be noted that issues such as land availability, development feasibility (factoring in land costs), development intensity, market acceptance, and timing, etc. will impact the total number of residential units and amount of retail and office space delivered during the 20-year planning period. Planning efforts should first focus around a sizable rental residential component (largely market-rate rental apartments with some student apartments and senior housing), for-sale townhomes with garages underneath, and retail space anchored by a grocery store. Other residential uses such as small-lot, single-family homes and condominium flats will represent less immediate land uses given both the limited feasibility of detached housing in Midtown from a financial perspective and the ability to deliver for-sale condominium product in the near-term in projects sizable enough to provide the sense of lifestyle needed to make that product attractive from a market perspective.

Land Use	Initial Demand 5-Year Dmd	Future 5-Year Demand	Total 20-Year Dmd Potential	Development Intensity
Small-Lot Single-Family	35	70	245	1 - 1.5 stories 45 x 90 lots 7 - 9/acre
Townhouses	41	55	206	2.5 floors (parking underneath), 12 - 16/acre
Condo Flats	34	43	163	3 - 4 story, not over retail 20 - 30/acre
Rental Apts (Some over Retail)	250	250	1,002	3 - 4 story, some over retail 20 - 30/acre
Seniors Hsng (Indep Living/ Asstd Living)	124	124	494	Requires 5 acre, but can get tighter--3-story bldgs (.5 FAR)
Student Housing	75	111	409	3 - 4 story, not over retail 20 - 30/acre
Retail	80,333	19,055	137,498	Mix of single-story & mixed-use bldg
Grocery	40,000 - 50,000	0	40,000 - 50,000	Single-story, perhaps with liner bldgs for Main Street feel
Local-Serving Office	23,555	23,555	94,220	Mix of 1 - 2-story bldgs, some over retail

Implementation

Implementation will be critical to the success of developing Midtown into a walkable, mixed-use community. While having the presence of three major institutions (Forrest General Hospital, Hattiesburg Clinic and The University of Southern Mississippi) from which to build, Midtown lacks any sense of consistent character and offers very little in terms of lifestyle. In addition to the lifestyle challenge, the redevelopment of areas like Midtown can also be more expensive and time-consuming (adding to costs) relative to conventional greenfield development in newer suburban areas to the west. Two of the biggest issues confronting the redevelopment of Midtown involve costs of development and must be addressed. These are:

- Small parcels and fractured ownership make land assemblage a major challenge, increasing time needed for development, costs associated with development, and investment risks; and
- Land prices have risen to levels that make redevelopment challenging for some land uses and could temper development momentum.

To address these, there are several strategies that should be examined further to facilitate redevelopment in Midtown Hattiesburg, including:

1. Creation of some type of catalytic entity (such as a Public Improvement District) with leadership that is purely driven to make the redevelopment and re-creation of Midtown Hattiesburg their major objective:
    a. This entity should have private-sector powers to facilitate development, yet should have a relationship with the public sector and the major institutions to facilitate joint development opportunities; and,
    b. This entity should work with developers, major institutions, the City and County to coordinate priorities, investment efforts, etc to ensure maximum benefit to the area.
2. Utilization of Hospital, Clinic, and University-owned properties for joint development opportunities in which land owned by one or more of these institutions is contributed to some type of joint venture development structure with a developer being responsible for securing equity and loans to develop vertical structures on the respective properties:
    a. This could eliminate some of the land assembly issues existing in the area in the near-term;
    b. These institutions could include some future building need (medical office building, for example) on a portion of their properties, making it more attractive from a market perspective for development of mixed-use product; and,
    c. In some cases coordination of parking needs and/or co-funding of structured parking construction may be needed.
3. Creation of a Tax Increment Financing District (TIF District) to generate revenue for funding key projects such as parks or open space, sidewalks and streetscaping, or even structured parking; and,
4. Exploration of other creative alternatives to enhance the quality of life in Midtown, potentially through services offered by the three major institutions to residents of Midtown – services that could be relatively low in costs yet have some perceived real value (health, education, etc).