



ECONOMIC AND MARKET ASSESSMENT: NIAGARA FALLS, NEW YORK



SUBMITTED TO:

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Date: June 15, 2011

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Technical Memorandum #1

Visitor Statistics

Niagara Falls, New York

Prepared by:

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Submitted to:

Christopher Schoepflin
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Date: October 27, 2010

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Mr. Christopher Schoepflin
USA Niagara Development Corporation
222 First Street, 7th Floor
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Dear Mr. Schoepflin:

We are pleased to submit the enclosed technical memorandum pertaining to estimates of current visitation and the workforce in Niagara Falls, New York.

Sincerely,

A handwritten signature in black ink that reads "Hans Detlefsen". The signature is written in a cursive, flowing style.

Hans Detlefsen
Managing Director
HVS Consulting and Valuation Services

Technical Memorandum #1

Introduction

This memorandum evaluates the current visitation and workforce that could influence market potential for development in the downtown area of Niagara Falls, New York. This memorandum is the first of a series that will focus on various economic and statistical characteristics pertaining to the Niagara Falls, New York market area. Prior studies by Longwoods International and Economics Research Associates (based on a D.K. Shifflet study) provide substantially different, survey-based, estimates of visitation during different years. In this memorandum, we discuss these studies and other sources of data that may provide insights about the area's market potential.

Visitor Estimates

For the purpose of this analysis, we consider two primary components of the visitor base:

1. Overnight visitors
2. Daytrip visitors

To estimate the overnight visitors, we developed a local "hotel census" of every hotel in Niagara Falls, New York. We then estimated the total number of room nights sold at these hotels based on interviews with hotel managers and information from the proprietary SPIDER database maintained by HVS. After estimating the number of room nights sold annually, we then divided this figure by the average length of stay to determine the number of parties visiting Niagara Falls. We then applied estimates of average party size to the number of parties visiting to calculate the number of unique visitors to the market. Finally, we multiplied this number by the average length of stay again to estimate the number of person-days these overnight visitors represented in 2009.

We also reviewed historical daytrip visitor estimates from a series of annual studies published by Longwoods International. We then evaluated visitor statistics from various individual sources and key destinations within Niagara Falls, New York as a check for reasonableness of, and to supplement, these annual daytrip visitor estimates.

Overnight Visitors

One way to estimate overnight visitors is to determine the number of people who stay in local hotels or motels. Although campers and visitors staying with friends or relatives would not be included in this estimate, the number of room nights sold in a given period can be quantified without relying on survey data that could be skewed for a number of known and unknown reasons. As such, visitation estimates based on paid occupancy at local hotels and motels may be considered relatively more reliable than survey data by some investors and developers.

The following table represents a census of all 44 hotels and motels we identified in Niagara Falls, New York. Together, these properties represent a total of 3,241 guest rooms in the local market. Addresses or location information deemed necessary for integrating these hotels into the client's GIS system will be provided in a subsequent document or in electronic format. A location code indicates whether each hotel is located in the downtown area (DT), along Route 62 (R62), or in another (O) part of town.

Hotels Census of Niagara Falls, NY

Property	Location	2009 Room						
		Count	Occ	ADR	RevPAR	Demand	Supply	Revenue
Seneca Niagara Hotel & Casino	DT	604	93%	82.00	76.26	205,028	220,460	16,812,280
Sheraton Niagara Falls	DT	391	58%	109.00	63.22	82,775	142,715	9,022,442
Quality Hotel & Suites @ The Falls	DT	213	45%	74.00	33.30	34,985	77,745	2,588,909
Holiday Inn Niagara Falls	DT	189	57%	102.00	58.14	39,321	68,985	4,010,788
Days Inn Niagara Falls	DT	168	52%	86.00	44.72	31,886	61,320	2,742,230
Comfort Inn The Pointe Niagara Falls	DT	118	49%	107.00	52.43	21,104	43,070	2,258,160
Hampton Inn Niagara Falls	DT	99	67%	106.00	71.02	24,210	36,135	2,566,308
Howard Johnson Closest To The Falls	DT	80	56%	84.00	47.04	16,352	29,200	1,373,568
Super 8 Niagara Falls	DT	55	43%	80.00	34.40	8,632	20,075	690,580
Econo Lodge @ The Falls	DT	43	31%	80.00	24.80	4,865	15,695	389,236
Giacomo Hotel	DT	38	50%	150.00	75.00	6,935	13,870	1,040,250
Rodeway Inn Niagara Falls	DT	23	26%	79.00	20.54	2,183	8,395	172,433
Passport Inn Niagara Falls	DT	18	35%	30.00	10.50	2,300	6,570	68,985
Econo Lodge @ The Falls North	0	66	53%	76.00	40.28	12,768	24,090	970,345
Anchor Motel	0	21	40%	40.00	16.00	3,066	7,665	122,640
Shiva`s Travelers Lodge	0	18	35%	30.00	10.50	2,300	6,570	68,985
Quality Inn Niagara Falls	R62	94	43%	67.00	28.81	14,753	34,310	988,471
Best Western Summit Inn	R62	88	50%	88.00	44.00	16,060	32,120	1,413,280
Americas Best Value Inn	R62	88	50%	88.00	44.00	16,060	32,120	1,413,280
Holiday Inn Express & Suites Niagara Falls	R62	87	70%	98.00	68.60	16,748	23,925	1,641,255
Howard Johnson	R62	80	45%	70.00	31.50	13,140	29,200	919,800
Motel 6 Niagara Falls	R62	74	50%	88.00	44.00	13,505	27,010	1,188,440
Super 8 Niagara Falls Buffalo Area	R62	73	51%	71.00	36.21	13,589	26,645	964,815
Days Inn Niagara Falls Buffalo	R62	54	57%	73.00	41.61	11,235	19,710	820,133
Travelodge Niagara Falls	R62	45	21%	71.00	14.91	3,449	16,425	244,897
Caravan Motel	R62	32	35%	45.00	15.75	4,088	11,680	183,960
Sunrise Inn	R62	32	35%	30.00	10.50	4,088	11,680	122,640
Rodeway Inn & Suites Niagara Falls	R62	31	21%	80.00	16.80	2,376	11,315	190,092
Swiss Cottage Inn	R62	31	35%	35.00	12.25	3,960	11,315	138,609
Budget Host Niagara Falls	R62	30	40%	61.00	24.40	4,380	10,950	267,180
Red Carpet Inn Niagara Falls	R62	30	35%	49.00	17.15	3,833	10,950	187,793
Hospitality Inn	R62	28	40%	30.00	12.00	4,088	10,220	122,640
Niagara Rainbow Motel	R62	26	35%	28.00	9.80	3,322	9,490	93,002
Knights Inn Niagara Falls	R62	25	26%	63.00	16.38	2,373	9,125	149,468
Travelers Budget Inn	R62	25	40%	89.00	35.60	3,650	9,125	324,850
Americas Best Value Inn @ The Falls	R62	22	50%	50.00	25.00	4,015	8,030	200,750
Bel Aire Motel	R62	22	40%	30.00	12.00	3,212	8,030	96,360
Niagara Falls Motel	R62	22	35%	30.00	10.50	2,811	8,030	84,315
Hillside Motel	R62	21	35%	30.00	10.50	2,683	7,665	80,483
Moonlite Motel	R62	21	35%	30.00	10.50	2,683	7,665	80,483
Driftwood Motel	R62	20	35%	35.00	12.25	2,555	7,300	89,425
Dunes Niagara Motel	R62	19	35%	30.00	10.50	2,427	6,935	72,818
Sands Motel	R62	17	35%	30.00	10.50	2,172	6,205	65,153
Pelican Motel	R62	15	35%	35.00	12.25	1,916	5,475	67,069
Totals/Averages		3,296	56.7%	84.25		677,879	1,195,210	57,109,597

Local hotels range in size from the 15-room Pelican Motel to the 604-room Seneca Niagara Hotel. Currently, 23 of these 44 hotels in Niagara Falls are nationally branded. Only one of the nationally branded hotels, the Sheraton, is categorized in the “upper-upscale” chain scale, as defined by Smith Travel Research. None of the nationally branded hotels are classified in the “upper” chain scale.

Demand is highly seasonal in Niagara Falls, New York. The following table highlights occupancies on monthly basis as well as day-of-week patterns observed throughout the past year.

Seasonality of Lodging Demand								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Sep - 09	66.6	56.7	59.6	58.7	59.8	75.9	93.8	66.8
Oct - 09	50.0	45.1	46.7	48.6	47.5	64.7	77.1	55.1
Nov - 09	23.3	23.8	26.2	25.9	33.3	59.5	69.9	36.5
Dec - 09	25.6	25.6	26.1	20.2	32.2	34.4	43.8	29.4
Jan - 10	14.9	12.8	16.0	15.6	17.5	32.7	38.2	21.8
Feb - 10	26.7	15.9	17.0	17.2	17.5	37.8	55.8	26.8
Mar - 10	23.1	26.8	25.2	26.8	28.4	52.7	61.9	34.1
Apr - 10	29.7	31.3	35.7	35.4	38.9	71.0	77.2	46.2
May - 10	59.2	49.1	53.3	53.7	52.3	77.9	92.5	63.0
Jun - 10	66.9	72.2	67.1	65.6	63.8	84.9	93.8	73.0
Jul - 10	82.0	81.4	82.6	83.4	82.3	91.6	97.0	86.2
Aug - 10	78.2	82.7	81.7	85.9	84.6	90.5	95.8	85.2
Total Year	45.4	43.8	45.4	44.6	46.8	64.5	74.8	52.2

The peak season includes June, July, and August, which corresponds with peak periods of family leisure travel. September, October, April, and May represent the shoulder seasons, when weather is still good and most attractions are still operating in the area; however, families travel much less frequently during these months because children are in school. The low season stretches from November through March.

HVS estimates citywide average occupancy was $\pm 57\%$ in 2009, including all hotels. This represents a total of approximately 667,900 room nights sold during the year. Our interviews, which are consistent with survey data from Longwoods International, indicate an average party size of approximately 2.5 people and an average length of stay equal to 2.1 nights. This implies a total $\pm 795,000$ unique visitors who stayed overnight at hotels and motels in Niagara Falls, New York. These visitors represented a total of ± 1.7 million person days in Niagara Falls, New York in 2009. These estimates of overnight visitors can be summarized by using the following calculations:

- 667,900 room nights sold (HVS estimate)
- 318,000 parties visiting (667,900 room nights / 2.1 nights)
- 795,000 unique visitors (318,000 parties x 2.5 people per party)
- 1,670,000 person days (795,000 visitors x 2.1 nights)

These figures represent the market potential of the overnight visitor market segment in Niagara Falls, New York, based on 2009 visitor statistics. Overnight visitors staying with friends and relatives or camping may represent additional demand potential.

In addition to the overnight visitor demand segment, we considered three additional demand segments that could represent significant potential for various land uses. The following discussions outline our review of: (1) overnight visitors to Niagara Falls, Ontario; (2) the daytrip visitor segment to Niagara Falls, New York; and (3) the downtown workforce segment.

Overnight Visitors to Niagara Falls, Ontario

Due to its physical proximity and similarly branded destination, visitors who stay overnight in Niagara Falls, Ontario may be considered a natural target market for various existing and proposed businesses

located in Niagara Falls, New York. HVS provides an overview of this demand segment, quantified in terms of estimated room nights sold at hotels located in Niagara Falls, Ontario.

Overnight visitors staying in Niagara Falls, Ontario represent one of the largest potential sources of daytrip visitors to Niagara Falls, New York. HVS identified 169 hotels and motels in Niagara Falls, Ontario open in 2009. These properties represent an estimated 13,933 hotel and motel rooms. This implies ± 5.1 million room nights were available in that market during 2009. The average annual occupancy in the Niagara Falls, Ontario market was reportedly 55.6% in 2009, according to a report by Niagara Falls Tourism. Therefore, we estimate ± 2.8 million room nights were sold in Niagara Falls, Ontario during 2009.

Based on information published by Statistics Canada for the Niagara Region in 2007, we assume an average party size of 1.7 people and an average length of stay for 2.3 nights. Therefore, we estimated the following overnight visitor calculations for Niagara Falls, Ontario:

- 2.8 million room nights sold (HVS estimate)
- 1.2 million parties visiting (2.8 million room nights / 2.3 nights)
- 2.1 million unique visitors (1.2 million parties x 1.7 people per party)
- 4.8 million person days (2.1 million visitors x 2.3 nights)

These figures represent the market potential represented by the overnight visitor segment in Niagara Falls, Ontario, based on 2009 hotel industry estimates. Overnight visitors staying with friends and relatives or camping may represent additional demand potential.

HVS concludes that overnight visitors to Niagara Falls, Ontario should be viewed as a potential demand segment for certain land uses under consideration in downtown Niagara Falls, New York. Taken together, these overnight visitors staying in Canada represent one of the largest potential sources of demand for a critical mass of dining, retail, entertainment, and cultural attractions that could be located in Niagara Falls, New York. This potential assumes a strong enough sense of “destination appeal” could be created through a unified branding and marketing strategy of several operators located in a densely concentrated district. That is, the potential to capture spending from this Canadian-based demand segment will be proportionate to the magnitude of the destination appeal created on the U.S.-side of the border.

Daytrip Visitors

Data related to the volume of daytrip visitors to Niagara Falls, New York is varied. Available information indicates significant discrepancies from one data source to another. HVS reviewed several data sources and provides a brief discussion of key considerations when interpreting these various data sources.

The **Longwoods International** study estimates total daytrip person trips of 3.1 million to Niagara Falls, New York in 2009 from other U.S. points of origin. Based on the sample size of this survey and the reputation of the survey company, this data may be considered most reliable by the development and investment community. However, it does not address daytrip visitors from Canada, which collectively may be one of the largest potential sources of demand for certain land uses, as discussed in the preceding section of this memorandum. Furthermore, many developers and investors view survey-based visitor statistics as having limited reliability because it is impossible to identify all potential omitted variables that could skew the findings during a given survey period.

A study by **Economics Research Associates** estimated total daytrip person trips of 5.2 million in 2003. While the research company is considered reputable, these estimates were based largely on survey data taken from a study published by D.K. Shifflet in 1995. Unlike the Longwoods International study, the estimates by Economics Research Associates include daytrip visitors from Canada. As such, we would expect the estimates by Economics Research Associates to be larger than estimates by Longwoods

International, which appears to be true, although the estimates are for different years. Due to the age of the original survey data (1995), the development and investment community may view the estimates from Economics Research Associates as less reliable than the data from the Longwoods International study.

Daytrip visitor volume is often a difficult statistic to measure reliably. It is common to have diverging estimates in markets that experience high volumes of daytrip visitor demand arriving from multiple origins and using various transportation routes. Even when expert opinions of daytrip visitor volume show more consistency than the preceding sources, it is often difficult to document and verify the estimates without relying on survey data and extrapolation calculations. Therefore, we considered other sources of visitor statistics that may also be useful for future economic development planning.

As a result of perceived reliability concerns with survey-based visitor data, macro-level or market-wide daytrip visitor estimates rarely serve as the basis for major investments and real estate development decisions, in our experience. Rather, these statistics are often used for identifying more general directional trends from one year to another. When used for this purpose, the Longwoods International data indicate a 9.1% decline in daytrip visitations during 2009 compared to 2008. This finding is consistent with other indications that the most recent national economic recession worsened in 2009. Preliminary data from various other sources suggest an economic recovery is under way in 2010. We consider some of these sources in the following discussion.

Alternative Statistics to Gauge Visitor Volume

Given the difficulty of measuring daytrip visitor volume in a given market, a more micro-level or business-specific approach may prove useful. Attendance statistics at specific attractions within the market may serve as an alternative gauge of demand potential. One key advantage of this approach is that many attractions keep reliable records of attendance or visitor statistics that can be documented by revenue trends, receipts, turn-style counts, or ticketing systems rather than consumer surveys. A potential drawback of this approach is that attendance statistics often do not distinguish between overnight visitors, daytrip visitors, or residents attending the attractions. HVS requested and reviewed attendance statistics from a range of top attractions and transportation authorities in the subject market area.

The **Office of Parks, Recreation, and Historic Preservation** provided us with a recent annual estimate of **±8.1 million** attendees in 2009 to the Niagara Falls State Park. The 2009 Longwoods International study also indicates that approximately 36 percent of overnight visitors to Niagara Falls, New York participated in a “national/state park” experience, making this the most popular activity in the area among overnight visitors. Attendance estimates, developed by park management, may include some double-counting as the figure far exceeds the sum of estimated overnight visitors and daytrip visitors from the previously reviewed sources. Alternatively, if these attendance figures are accurate, they suggest at least one of the following may be true: (a) residents make up a significant volume of attendees, (b) some daytrip and overnight visitors are attending the park multiple times during their visits, and/or (c) visitors staying in Canada are coming to New York to visit the park, or some combination of these explanations. Unless more detailed attendance records can be developed, the park’s annual attendance statistics are likely to serve only as a secondary indication of the daytrip and visitor market potential in Niagara Falls, New York. Nonetheless, a comparison of these estimates from year to year could be an important indication of trends over time. Moreover, these attendance figures could be used to guide assumptions about capture rates for certain land uses that have comparables that also rely on nearby parks with similar attendance characteristics.

Aside from the falls themselves, the **Seneca Niagara Casino** is one of the largest attractors of visitors to the area. According to the 2009 Longwoods study, the “casino” is the fourth most popular visitor activity or experience for overnight visitors; approximately 33 percent of overnight visitors and 41 percent of daytrip visitors indicated they had visited the casino while in Niagara Falls, New York. The Seneca Niagara Corporation, which owns the casino, estimated total attendance of **±8.0 million** in 2009. HVS also estimates that the adjacent hotel sold approximately 204,000 room nights in 2009. Although the casino is a significant factor in generating overnight visitor demand, these figures suggest that the majority of

casino attendees are daytrip visitors or local residents who do not require overnight lodging. Casino attendees represent a relatively large proportion of the overall visitor market.

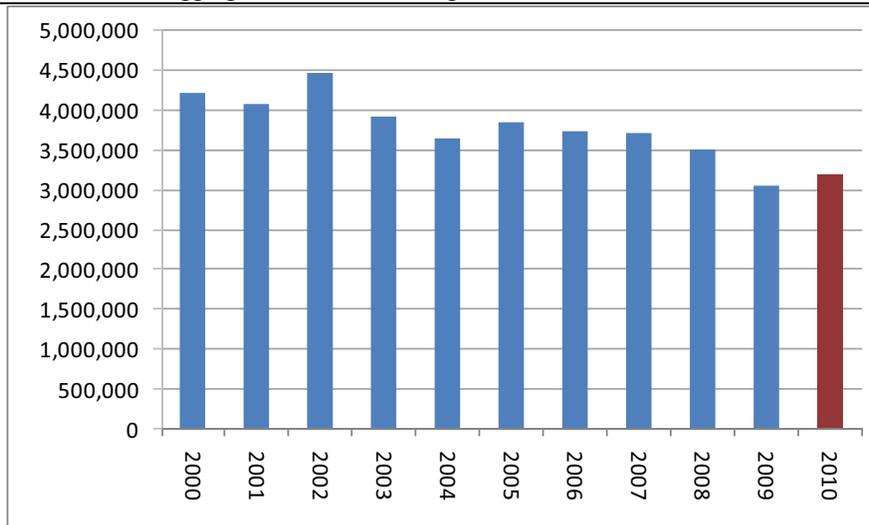
Management representatives of the **Fashion Outlets of Niagara Falls USA** estimated that **±6.0 million** people visited this shopping destination in 2009. According to the 2009 Longwoods study, “shopping” was the second most popular activity among all visitors to the area. Based on interviews with management, roughly 50 percent of visitors to the fashion outlets are from Canada. Although detailed sales data is not published on a store-by-store basis, management indicates that average sales equated to ±\$800 per square foot, in 2009, at the 533,000-square-foot outlet mall. These estimates imply a total of ±\$426 million in annual sales. Total sales and visitor estimates imply an average expenditure of approximately \$71 per visitor.

The **Conference Center Niagara Falls** is currently managed by Global Spectrum. Management representatives provided us with internal 2009 annual attendance and room night estimates. These figures indicate total attendance of **77,226** and total room nights of **20,494** in 2009. The estimates suggest that the majority of conference center attendees are local residents or daytrip visitors. Conference attendees represent a relatively small proportion of the overall visitor segment.

The **Niagara Falls Bridge Commission** estimated that nearly 3.2 million vehicles traveled across three bridges from Canada to the U.S. in the Niagara Falls market area during 2009. Preliminary data for 2010 indicates an increase in volume, but still roundly **3.2 million vehicles** projected for 2010. Monthly travel patterns during the past 24 months indicate that U.S.-bound vehicle counts ranged between 176,710 in February 2010 and 364,678 in August 2010. Furthermore, we evaluated total traffic crossings during the month of December as a rough indicator of shopping demand from Canadian residents. December traffic counts have declined each of the past three years, corresponding with a global and regional economic recession.

The following figure illustrates the historical trend in U.S.-bound vehicle traffic traveling over all three bridges. The Niagara Falls Bridge Commission is the source of all annual and monthly data, except 2010, which is an HVS projection based on year-to-date traffic data through September 2010.

U.S. Bound Vehicle Traffic – Aggregated from Three Bridges



Historical vehicle traffic data from the Niagara Falls Bridge Commission appears to indicate a long-term downward trend in passenger volume to the U.S. from Canada by way of the three bridges serving the

Niagara Falls area. However, what appears to be a long-term trend may be better explained by three short-term shocks that negatively affected U.S.-bound traffic during the past decade.

Firstly, terrorist attacks on September 11, 2001 led to heightened security at all U.S. borders and decreased international travel. This, combined with a national economic recession in the U.S., led to a short-term decline in traffic for 2001. But traffic was already increasing year-over-year again by January of 2002, suggesting that the negative impact on travel, resulting from the terrorist attacks, was short-lived. As the economy began recovering in 2002, vehicle traffic rebounded strongly.

Secondly, vehicle traffic declined significantly again in 2003 and 2004 as increasing security measures continued to make cross-border travel inconvenient and more time-consuming. The Western Hemisphere Travel Initiative (WHTI) resulted from the Intelligence Reform and Terrorism Prevention Act that eventually passed in 2004. The WHTI requires all travelers to present a passport or other document that denotes identity and citizenship when entering the United States. The cost of obtaining required documents and the inconvenience of security checks is one reported reason for declining vehicle traffic volumes in 2003 and 2004, according to our interviews. Temporary closures at the Whirlpool Bridge in late 2003 and early 2004 also contributed to lower vehicle counts in these two years. A strong national economy and increased awareness of security programs led to a rebound, with higher vehicle traffic volumes apparent in 2005 and 2006.

Thirdly, a severe global economic recession, which began in late 2007 contributed to significant declines in traffic volume for most of 2008 and 2009. On June 1, 2009 further security measures were implemented requiring all visitors entering Canada to have a passport or equivalent identification documents. Particularly in the leisure segment, this has led to a significant decline in the number of travelers driving across the bridges to Canada (and back), thereby reducing the U.S.-bound traffic volume by a similar amount. Even these effects appear to be temporary. Through the first nine months of 2010, U.S.-bound bridge traffic has increased significantly compared to the previous year. This increase is mainly attributed to a recovering global economy and increased awareness of security requirements.

As economic conditions improve and awareness about security requirements increases, vehicle traffic across the Niagara Falls area bridges is expected to continue increasing in the short-run and long-run.

The **Buffalo Niagara International Airport (BNIA)** provides non-stop flights to 23 airports around the country. BNIA administrators estimated that ±5.3 million passengers travelled through the airport in 2009. Southwest Airlines is the top commercial carrier, by passenger volume, for the airport. Other major airlines serving this airport include AirTran, American Airlines, Continental, Delta, JetBlue, United, and U.S. Airways. The following table shows historical trends and year-to-date estimates of total passenger traffic at BNIA.

Buffalo Niagara International Airport – Passenger Statistics

Year	Passenger Traffic	Percent Change*	Percent Change**
2000	4,357,048	—	—
2001	4,396,030	0.9 %	0.9 %
2002	4,134,456	(6.0)	(2.6)
2003	4,077,052	(1.4)	(2.2)
2004	4,441,382	8.9	0.5
2005	4,868,893	9.6	2.2
2006	5,044,616	3.6	2.5
2007	5,308,723	5.2	2.9
2008	5,526,301	4.1	3.0
2009	5,321,054	(3.7)	2.2
<i>Year-to-date, September</i>			
2009	4,081,948	—	—
2010	3,944,208	(3.4) %	—

*Annual average compounded percentage change from the previous year

**Annual average compounded percentage change from first year of data

Source: Buffalo Niagara International Airport

These figures indicate a long-term growth trend in passenger volume through BNIA. Despite two periods negatively affected by national economic recessions (in 2002 and 2009), the growth trend for the decade through 2009 has been positive, with a compounded average growth rate of 2.2% annually. Although year-to-date passenger traffic through September 2010 indicates a continuing decline, growth resumed during the third quarter of 2010 and the year-end data may end up being closer to flat compared to 2009, according to the most recent data from airport administrators.

The **Niagara Falls International Airport (NFIA)** is served by three, low-cost, commercial passenger airlines, namely, Direct Air Airlines, Vision Airlines, and Spirit Airlines. In December 2009, a new \$31.5-million passenger terminal was completed. Direct Air provides year-round nonstop flights to and from Myrtle Beach, South Carolina two or three times per week, depending on the season. Direct Air also provides seasonal nonstop flights to Melbourne, Fort Myers, and West Palm Beach, Florida. Beginning in 2009, Rainbow Tours began offering non-stop flights on select dates to and from New York City during the peak travel season, from July through October. As a result of increasing service offered by Direct Air and Rainbow Tours, combined with improving economic conditions, a significant increase in passenger volume has occurred throughout 2010. The following figures are annual estimates of total passengers using the Niagara Falls International Airport during the past four years:

- 2007 – 17,893 passengers
- 2008 – 41,333 passengers
- 2009 – 38,726 passengers
- 2010 – 70,000 passengers (forecast by NFTA)

These passenger statistics suggest significant growth in air travel directly to and from Niagara Falls since Direct Air Airlines began offering passenger service in 2007. A decline in passenger volume during 2009 likely reflects weakening economic conditions, as the national economy continued to contract through the first half of the year. The robust increase in passenger volume in 2010 reflects a combination of improving economic conditions, a more attractive and efficient terminal building, and added service routes.

Visitor Characteristics

For the purpose of this analysis, we evaluated visitor characteristics according to the following categories:

1. Visitor Demographics
2. Visitor Origin
3. Purpose of Visit
4. Visitor Expenditures

Currently, most of the data available publicly on visitor demographics, place of origin, purpose of visit, and visitor expenditures is based on visitor surveys focused on particular destinations, such as the Niagara Falls State Park. Although the specific surveys may have been accurate at the time and location in which they were completed, certain discrepancies may limit the usefulness of the data for the purposes of business planning.

Some of the specific demographic data may be relevant to individual retailers making location decisions. Survey data about the purpose of visits and visitor expenditure data may also be useful as a secondary data source for some investors; however, specific spending data from comparables is likely to be a more important data set investors will require. Visitor origin data could be very helpful in making investment decisions about coordinated marketing campaigns and media strategies.

Therefore, we summarize a range of key findings from an extensive collection of visitor surveys completed in recent years. The following bullet points highlight several key statistics and illustrate some apparent discrepancies in the survey data. HVS suggests that individual components of this data may be best communicated in separate PowerPoint presentations targeted toward specific audiences.

The 2009 Niagara Falls State Park Visitor Survey

- Gender:
 - 48% female
 - 52% male
- Ages:
 - 8% under 18 years
 - 80% age 18-64 years
 - 12% 65 years and older
- Visitor Origin:
 - 82% from U.S.
 - 20% from New York
 - 9% from Ohio
 - 7% from California

- 6% from Pennsylvania
- 18% from International
 - 12% from India
 - 9% from China
 - 8% from Canada
 - 8% from Columbia
 - 8% from Germany
- Purpose of Visit and/or Activities:
 - Survey respondents were not asked specifically about the overall purpose of their trip; however, the survey asked respondents to identify which leisure activities they were most interested in during the trip:
 - 92% Sightseeing/Touring
 - 53% Dining in Restaurants
 - 44% Visit State/National Parks
 - 36% Shopping
- Visitor Spending:
 - Total Spending per Party over course of entire trip (4.1 days): \$1,179
 - \$371 on Hotel/Lodging (\$90.49 per day)
 - \$317 on Food/Drink (\$77.32 per day)
 - \$206 on Transportation (\$50.24 per day)
 - \$142 on Attractions (\$34.63 per day)
 - \$77 on Retail (\$18.78 per day)
 - \$67 on Other (\$16.34 per day)

The 2009 Longwoods Travel USA Visitor Survey

- Gender:
 - 47% female
 - 53% male
- Ages:
 - Average Age of Daytrip Visitor = 44.6

- Average Age of Overnight Visitor = 42.9
- Visitor Origin: (Only U.S. residents were included in this survey)
 - 44% Overnight Visitors
 - 35% from New York
 - 8% from Pennsylvania
 - 7% from New Jersey
 - 7% from Texas
 - 7% from Ohio
 - 56% Daytrip Visitors
 - 36% from Buffalo, NY
 - 24% from Rochester, NY
 - 9% from Cleveland, OH
 - 7% from New York, NY
 - 5% from Syracuse, NY
- Purpose of Visit and/or Activities:
 - Overnight Visitors
 - 35% Visiting Friends/Relatives
 - 19% Touring
 - 13% Casino
 - Daytrip Visitors
 - 30% Sightseeing/Touring
 - 29% Casino
 - 15% Visiting Friends/Relatives
- Visitor Spending (per person):
 - Overnight Visitors
 - \$52 on Lodging
 - \$34 on Food / Beverage
 - \$31 on Recreation / Sightseeing / Entertainment

- \$27 on Retail
- \$16 on Transportation (in-town)
- Daytrip Visitors
 - \$23 on Recreation / Sightseeing / Entertainment
 - \$18 on Food / Beverage
 - \$12 on Retail
 - \$7 on Transportation (in-town)

The 2009 Niagara USA Discovery Pass Survey

- Ages:
 - 28% ages 18-34 years old
 - 34% ages 35-54 years old
 - 37% age 55 or older
- Visitor Origin:
 - 18% New York
 - 6% Pennsylvania
 - 6% California
 - 4% Ohio
 - 4% Texas
 - 4% Canada
- Purpose of Visit and/or Activities:
 - This survey was specifically focused on activities related to the Niagara Falls Discovery Pass. Survey participants indicated their intentions to visit the following attractions:
 - 73% Maid of the Mist
 - 58% Cave of the Winds
 - 42% Niagara Legends of Adventure Movie
 - 40% Niagara Discovery Center
 - 33% Niagara Aquarium
 - 13% Fort Niagara

The 2007 NTCC Visitor Profile Survey

- Household Income (annual):
 - 20% under \$30,000
 - 30% between \$30,000-\$49,999
 - 24% between \$50,000-\$74,999
 - 11% between \$75,000-99,999
 - 15% over \$100,000

- Education Level:
 - 3% Did not complete High School or GED
 - 13% High School or GED
 - 24% Some College, no degree
 - 13% Associate Degree
 - 30% Bachelors Degree
 - 14% Masters Degree
 - 3% Doctorate

- Ethnicity/Race:
 - 70% Caucasian, not Hispanic
 - 14% Asian / Pacific Islander
 - 9% Hispanic
 - 4% Black
 - 3% American Indian / Alaskan Native

- Employment Status:
 - 58% Full-time Employee
 - 14% Retired
 - 13% Part-time Employee
 - 8% Student
 - 7% Other

- Gender:

- 51% female
- 49% male
- Ages:
 - 11% ages 18-24
 - 13% ages 25-34
 - 23% ages 35-44
 - 27% ages 45-54
 - 11% ages 55-64
 - 15% age 65 or older
- Visitor origin data was not collected for this survey.
- Purpose of Visit and/or Activities:
 - 62% Sightseeing
 - 12% Visiting Friends or Relatives
 - 11% Casino / Gaming
 - 5% Business / Convention
 - 4% Shopping
- Visitor Spending:
 - Total Spending per Person (specifically in Niagara Falls, New York)
 - 40% less than \$100
 - 31% between \$100 and \$199
 - 17% between \$200 and \$299
 - 7% between \$300 and \$399
 - 5% \$400 or more

The 2004 Niagara Falls State Park Visitor Survey

- One of the most valuable findings of this survey pertains to what visitors indicate they liked least about the Niagara Falls State Park. Of the 141 responses, 68 mentioned “costs” – mainly referring to parking and food costs.
 - Potentially powerful tourism generator/lever: FREE PARKING
 - Potential development opportunity: GROCERY-ORIENTED FOOD

- Potential development opportunity: RESTAURANTS with varying PRICE POINTS
- Household Income (annual):
 - Average: \$61,500
- Ethnicity/Race:
 - 71% Caucasian, not Hispanic
 - 20% Asian / Latino / Other / Native-American
 - 9% African-American
- Ages:
 - Age range: 16-84
 - Average age: 44
- Visitor Origin
 - 86% United States
 - 11% International, excluding Canada
 - 3% Canada
- Purpose of Visit and/or Activities (most frequently mentioned features of the park):
 - Maid of the Mist
 - Cave of the Winds
 - The Falls

We also reviewed data from the **2007 Ontario Regional Tourism Profile**. Although this information does not focus on visitors to Niagara Falls, New York, we consider the data relevant for potential businesses aiming to target a demand segment from the Ontario visitor market. As such, we will present various relevant components of this and other Canadian tourism data in subsequent technical memoranda, as deemed appropriate.

The visitor data collected in the surveys summarized in the preceding section may only be a secondary consideration for developers and investors making decisions about whether to develop or invest in a project in downtown Niagara Falls, New York. A much narrower set of data, specifically focused on existing comparable operations, are often the primary type of data that many investors and developers require to make investment and development decisions. The relative lack of existing developments comparable to new developments that could be considered, therefore, will likely represent a significant barrier to further development. It is unlikely this the visitor survey statistics and demographic data shown in the preceding pages will viewed as a suitable substitute for real operational data from comparable properties.

In our experience, the sort of visitor data summarized in the preceding pages can be useful for targeting advertisement spending and estimating the tourism industry's economic impacts on the local area economy. For example, by tracking the long-term trend in visitor origins, tourism and advertising

professionals may be able to identify growing market segments and correlations between growth from certain origins and advertising budgets spent in such locations can help to determine the return on investment of such marketing efforts. Moreover, visitor spending patterns can be used to determine the relative impact of the tourism industry on the local economy. Similarly, visitor spending patterns can be extrapolated to potential new visitors to determine whether it makes sense to lure certain attractions or events with public financial incentives.

Downtown Workforce

Employees who work in the downtown area may also represent a potential source of demand for various existing and proposed businesses. For the purpose of this analysis, we considered the following metrics and characteristics of the downtown workforce:

1. Number of Businesses and Employees
2. Industry Classifications
3. Average Wages/Salaries
4. Trends

Based on 2010 forecasts from ESRI, there are 396 businesses in the downtown Niagara Falls, New York area. These businesses employ an estimated 9,655 workers. For the purpose of this study, we defined the downtown area as a one-mile radius centered at the intersection of Rainbow Boulevard and Old Falls Street, excluding any data points in Canada.

Industry classifications for the downtown workforce are varied; however, the single largest employer is the Seneca Niagara Casino and Hotel, with an estimated 2,725 employees. The Niagara Falls Memorial Medical Center employs 894 workers, according to information provided by Buffalo Niagara Enterprise. We reviewed the distribution of downtown employment across various industries.

The following table shows the number of businesses and the number of employees in each industry category.

Downtown Employment by Industry

ESRI Forecast for 2010	BUSINESSES		EMPLOYEES	
	Number	Percent	Number	Percent
Agriculture, Forestry, Fishing and Hunting	0	0.0%	0	0.0%
Mining	0	0.0%	0	0.0%
Utilities	0	0.0%	0	0.0%
Construction	8	2.0%	15	0.2%
Manufacturing	6	1.5%	398	4.1%
Wholesale Trade	7	1.8%	73	0.8%
Retail Trade	41	10.4%	286	3.0%
Motor Vehicle and Parts Dealers	1	0.3%	1	0.0%
Furniture and Home Furnishings Stores	1	0.3%	5	0.1%
Electronics and Appliance Stores	3	0.8%	8	0.1%
Building Material; Garden Equipment; Supplies Dealers	2	0.5%	6	0.1%
Food and Beverage Stores	9	2.3%	123	1.3%
Health and Personal Care Stores	4	1.0%	25	0.3%
Gasoline Stations	3	0.8%	13	0.1%
Clothing and Clothing Accessories Stores	4	1.0%	5	0.1%
Sporting Goods, Hobby, Book, and Music Stores	0	0.0%	0	0.0%
General Merchandise Stores	1	0.3%	9	0.1%
Miscellaneous Store Retailers	14	3.5%	89	0.9%
Nonstore Retailers	0	0.0%	0	0.0%
Transportation and Warehousing	11	2.8%	481	5.0%
Information	2	0.5%	104	1.1%
Finance and Insurance	19	4.8%	291	3.0%
Central Bank; Credit Intermediation and Related Activities	11	2.8%	261	2.7%
Securities; Commodities; Financial Investment Activities	4	1.0%	17	0.2%
Insurance; Funds, Trusts, and Other Financial Vehicles	4	1.0%	13	0.1%
Real Estate and Rental and Leasing	17	4.3%	77	0.8%
Professional, Scientific, and Technical Services	43	10.9%	167	1.7%
Legal Services	28	7.1%	94	1.0%
Management of Companies and Enterprises	2	0.5%	0	0.0%
Administrative Support; Waste Management; Remediation	16	4.0%	27	0.3%
Educational Services	1	0.3%	1	0.0%
Health Care and Social Assistance	47	11.9%	2,570	26.6%
Arts, Entertainment, and Recreation	15	3.8%	3,108	32.2%
Accommodation and Food Services	50	12.6%	1,112	11.5%
Accommodation	19	4.8%	704	7.3%
Food Services and Drinking Places	31	7.8%	408	4.2%
Other Services (except Public Administration)	51	12.9%	235	2.4%
Automotive Repair and Maintenance	4	1.0%	1	0.0%
Public Administration	51	12.9%	707	7.3%
Unclassified Establishments	9	2.3%	3	0.0%
Totals	396	100.0%	9,655	100.0%

Two observations are apparent when observing the downtown workforce employment data. Firstly, the size of the downtown workforce is relatively small in terms of market segments that could be the basis of business demand for the land uses under consideration. As such, the downtown workforce should be

viewed as a supplemental demand segment rather than the primary target market for most restaurant, retail, entertainment, or cultural developments under consideration. Secondly, the workforce appears to be concentrated in a few pockets, which reflects the fact that the Seneca Niagara Casino & Hotel is by far the largest employer in the area; similarly, the Niagara Falls Memorial Medical Center is also one of the largest employers in the area. Several downtown area hotels also represent a significant portion of downtown employment. To the extent that downtown workers can serve as a significant secondary demand segment for proposed businesses, planning for such businesses should take into consideration the location and proximity to one or more of the major employment centers in the downtown area. Specifically, a location within walking distance to the casino, state park, conference center, and the Crowne Plaza hotel is likely to provide the greatest competitive advantage with respect to attracting downtown workers as customers.

Gaming, lodging, food services, and healthcare represent the largest employment sectors in downtown Niagara Falls, New York. HVS obtained regional wage surveys from the State of New York for the purpose of evaluating average annual wages within each of the primary employment codes that characterize the largest employment categories for the downtown workforce in Niagara Falls, New York. The following table summarizes the earning characteristics of the primary employment sectors that are active in the downtown area.

Wage and Salary Survey Data – Western New York Region

SOC Code	Job Title	Annual Wages (\$)		
		Mean	Entry-Level	Experienced
Health Care				
29-0000	Healthcare Practitioners and Technical Occupations	\$65,050	\$34,170	\$80,500
31-0000	Healthcare Support Occupations	\$27,080	\$19,980	\$30,620
Food Preparation and Serving Related Occupations				
35-1011	Chefs and Head Cooks	\$47,900	\$31,200	\$56,250
35-2014	Cooks, Restaurant	\$23,270	\$19,140	\$25,340
35-1012	First-Line Supervisors/Managers of Food Prep and Servers	\$27,170	\$18,850	\$31,340
35-2019	Cooks, All Other	\$27,720	\$17,950	\$32,610
35-2012	Cooks, Institution and Cafeteria	\$25,210	\$17,740	\$28,950
35-2015	Cooks, Short Order	\$21,200	\$17,570	\$23,010
35-3041	Food Servers, Nonrestaurant	\$23,390	\$16,860	\$26,650
35-2021	Food Preparation Workers	\$19,910	\$16,750	\$21,500
35-9031	Hosts and Hostesses, Restaurant, Lounge, Coffee Shop	\$19,160	\$16,710	\$20,380
35-9021	Dishwashers	\$17,570	\$16,540	\$18,090
35-3031	Waiters and Waitresses	\$21,940	\$16,470	\$24,680
35-3021	Combined Food Prep and Servers, Including Fast Food	\$18,280	\$16,450	\$19,190
35-3022	Counter Attendants, Cafeteria, Concession, Coffee Shop	\$17,850	\$16,440	\$18,550
35-9011	Dining Room and Cafeteria Attendants and Bartender	\$18,650	\$16,390	\$19,770
35-2011	Cooks, Fast Food	\$18,140	\$16,360	\$19,030
35-3011	Bartenders	\$19,010	\$16,200	\$20,410
Lodging / Hotel / Motel				
41-3099	Sales Representatives, Services, All Other	\$53,620	\$30,430	\$65,210
37-1011	First-Line Supervisors/Mngr of Housekeeping and Janitorial	\$40,560	\$28,980	\$46,350
43-4081	Hotel, Motel, and Resort Desk Clerks	\$21,620	\$17,330	\$23,770
37-2012	Maids and Housekeeping Cleaners	\$21,360	\$17,280	\$23,400
Gaming / Casino				
39-1011	Gaming Supervisors	\$44,850	\$34,690	\$49,920
33-9031	Gaming Surveillance Officers and Gaming Investigators	\$25,400	\$22,770	\$26,720
41-2012	Gaming Change Persons and Booth Cashiers	\$21,670	\$18,690	\$20,300
39-3091	Amusement and Recreation Attendants	\$19,090	\$16,650	\$18,730
39-3011	Gaming Dealers	\$17,820	\$16,000	\$18,730

The average wage data indicates a range of potential income levels for the downtown workforce. This data will be considered in greater detail during subsequent evaluations of specific land uses proposed in the downtown area.

Strategic Conclusions

A market segmentation analysis technique is likely to be useful for most major entertainment, cultural, retail, or dining attractions that may be under consideration for development. In this technique, investors attempt to identify the key market segments from which their developments are likely to attract customers. Then capture rates can be applied to each defined market segments, using comparable developments as a guide for determining capture rate assumptions. This technical memorandum can be used to help define the likely market demand segments relevant for such analyses.

In addition to residential population segments, one or more of the following visitor market segments could be considered useful for various market segmentation analyses:

- Overnight hotel guests staying in Niagara Falls, New York
- Overnight hotel guests staying in Niagara Falls, Ontario
- Visitors attending the Niagara Falls State Park
- Visitors attending the Seneca Niagara Casino
- Visitors attending the Fashion Outlets of Niagara Falls USA
- Daytime Employees in the Downtown Area
- Conference Center Attendees
- U.S.-bound traffic across Rainbow Bridge (and other two bridges)

The visitor spending data, survey data, and current supply of businesses in the downtown area are consistent with a high degree of price-sensitivity among historical visitor demand segments. At the same time, the destination appeal of Niagara Falls as a brand enjoys extremely high popularity as do the largest visitor attractions in Niagara Falls, New York. This combination presents a powerful opportunity to implement programs or strategies that could have very rapid effects on the tourism volume and visitor satisfaction levels historically reported. Specifically, the following strategies or programs could be most immediately effective:

- An effort to concentrate tourism experiences in a well-defined, pedestrian-oriented corridor would not only allow for coordinated branding and marketing, but it would also help to address repeated complaints about signage, way-finding, and a lack of things to do.
- Visitor survey data and our interviews frequently suggest that food-service options are too limited, too expensive, not exciting enough, and/or not conveniently located. A concentrated district of restaurants that offered a variety of price points within walking distance to major attractions such as the Niagara Falls State Park and the Seneca Niagara Casino could be one way to address these frequently cited concerns of tourists.
- A designated area that offered free parking (or parking vouchers for visitors who spend money downtown) would not only address one of the most important complaints of visitors, but it would instantly create a concentration of visitors that could be leveraged as a reliable and measurable demand source for a nearby or adjacent district featuring restaurants, entertainment, hotels, and possibly retail.

This technical memorandum is intended primarily as a review of numerous prior studies. Some primary research regarding overnight visitor data was deemed appropriate to develop a reliable opinion of how many overnight guests are coming to Niagara Falls, New York. The data and statistics summarized in this

memorandum may be used in conjunction with more specific industry and property-level data in subsequent technical memoranda.



ECONOMIC AND MARKET ASSESSMENT: NIAGARA FALLS, NEW YORK



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Date: June 15, 2011

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Technical Memorandum #2

Hotel Analysis

Technical Memorandum #2

Hotel Analysis

Niagara Falls, New York

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Technical Memorandum #2

Introduction

This memorandum evaluates the current inventory of hotel supply in the downtown area of Niagara Falls, New York and provides strategic recommendations for future development priorities. This memorandum is the fourth in a series that focuses on various economic and statistical characteristics pertaining to the Niagara Falls, New York market area. Additional studies related to visitor statistics, retail development, housing development, and restaurant / entertainment development are included in our broader scope of work performed as part of this engagement.

Overview of the Niagara Falls Hotel Industry & Strategic Recommendations

Niagara Falls, New York currently features 44 hotels and motels, representing a total inventory of 3,241 guestrooms. These hotels primarily target price-sensitive tourists visiting the two greatest lodging demand generators in the City, namely, Niagara Falls State Park and the Seneca Niagara Casino. Although the hotels located in Niagara Falls, New York are currently targeting highly price-sensitive customers, there clearly exists a broader range of less-price-sensitive potential customers visiting the greater Buffalo-Niagara region from which higher quality hotels could potentially draw business. However, several important barriers to entry have prevented the development of higher-quality hotel properties in downtown Niagara Falls. This memorandum will identify these barriers, or obstacles, and suggest measures that would encourage an upward shift in quality and economic impact potential for the overall lodging industry in downtown Niagara Falls.

This technical memorandum will discuss, in more quantitative measures, the following topics:

1. Quality of Existing Hotels
2. Branding of Existing Hotels
3. Potential Target Market for an Upper-Upscale, Full-Service Hotel (competitive set)
4. Competitive Advantages & Disadvantages (need for district/amenities)
5. Penetration Analysis
6. Metrics of Comparable Hotels
7. Financial Operating Potential for an Upper-Upscale, Full-Service Hotel
8. Obstacles to Development (low-end supply glut; seasonality; lack of available financing)
9. Development Incentives (for full-service and more generally upgrading quality/branding citywide)

The following analysis is intended as (1) a market research tool for evaluating potential hotel development opportunities in the downtown Niagara Falls market area and (2) a discussion of potential policy options to transform the landscape of the downtown Niagara Falls hotel industry. We will discuss each of the preceding topics in turn.

Quality of Existing Hotels

There are several quantitative methods for measuring the quality of hotels. The materials used for a hotel's structure, furnishings, fixtures, and equipment can constitute one guide to determining the quality of individual hotels. The average daily rate (ADR) of hotels can sometimes be used as a proxy for quality; assuming markets are efficient, guests will tend to bid up the ADRs of higher quality hotels and lower quality hotels will need to compete by reducing their rates. In many instances, branding can also serve as a proxy for quality; however, some brands have stricter quality control measures than others and the quality range within a national portfolio of a single brand can often vary widely. Perhaps the most widely known and accepted form of quickly ranking the relative quality of hotels is a tier system published by Smith Travel Research (STR); these quality tiers are referred to as "chain scales" by most industry participants. STR has assigned every national and global brand to one of six chain scales, as follows:

- Luxury – 0
- Upper-Upscale – 0
- Upscale – 1
- Upper-Midscale – 4
- Midscale – 3
- Economy – 14

The number of properties located in Niagara Falls, New York, within each branded chain scale, is shown by the number following each of the preceding categories.

Luxury is the highest-quality chain scale and includes some of the world's most iconic brands. Examples include Four Season, Ritz-Carlton, W Hotels, and Waldorf=Astoria. Luxury hotels tend to be located in high-end resort destinations or dense, urban downtown areas of large metropolitan centers. We did not identify any hotels within the luxury chain scale located in Niagara Falls, New York or Niagara Falls, Ontario, although several casino hotels claim to feature luxury amenities similar to hotel brands in this chain scale.

Recommendation – We recommend not allocated scarce public resources to targeting development within the luxury chain scale. The economic impacts to be derived by luxury hotel developments are likely to be significant, but would likely require more public incentives relative to its economic impact potential than other prospective hotel types. However, we recommend being open to consideration of requested public incentives if such a development is proposed by a private-sector sponsor in the future.

Upper-upscale is the second-highest chain scale and includes many of the namesake brands of the largest hotel companies in the world and represent among the highest-quality properties available in most major metropolitan areas. Examples include Hilton, Hyatt Regency, Marriott, Sheraton, and Westin. These properties tend to be located in densely populated urban centers near tourism amenities, such as restaurants, shopping centers, and entertainment or cultural attractions. These properties also typically feature a substantial amount of meeting and banquet space that can be utilized to target group business during non-peak demand seasons. There are five upper-upscale hotels located in Niagara Falls, Ontario. These include the Embassy Suites and Hilton under the Hilton family of brands; the Marriott under the Marriott family of brands; and the Sheraton On-The-Falls and Sheraton Fallsview Conference Center under the Starwood family of brands. There are no upper-upscale hotels located in Niagara Falls, New York.

Recommendation – We recommend actively pursuing the development of one upper-upscale hotel to serve as an anchor for a densely planned dining, conference, and entertainment district located between

the State Park and the casino. The proposed hotel should include a minimum of 60 square feet of meeting and banquet space per guestroom and we recommend consideration of a hotel with between 200 and 400 guestrooms, branded by a major national chain. The economic impacts to be derived by an upper-upscale hotel are likely to be significant and represent the greatest opportunity for positive impacts relative to the likely cost of public incentives.

Upscale is a relatively broad category of hotels that can include both full-service and select-service hotel types that feature roughly similar construction quality, design features, and price points. Examples of brands in the upscale chain scale include aloft, Cambria Suites, Crowne Plaza, Courtyard by Marriott, Doubletree, Four-Points by Sheraton, Hilton Garden Inn, Hyatt Place, Indigo, Radisson, and Wyndham. Five of these upscale brands are represented in Niagara Falls, Ontario, namely, Courtyard by Marriott, Crowne Plaza, Doubletree, Four Points by Sheraton, and Radisson. A Hilton Garden Inn is located in nearby Niagara-On-The-Lake, Ontario. One upscale brand, namely, the Crowne Plaza is located in downtown Niagara Falls, New York. Several of the brands in this chain scale are currently looking for opportunities to expand their presence in the Niagara Falls region. Examples include Cambria Suites, Four Points by Sheraton, and Hyatt Place.

Recommendation – We recommend actively encouraging the private sector to construct new properties in the upscale chain scale or making investments in existing properties of a lower chain scale in order to convert them into upscale hotels. Because hotels in this category will have much less potential for economic impact than a full-service, upper-upscale hotel, we recommend only limited use of public incentives to encourage development in this chain scale. A loan guarantee program for existing owners who want to upgrade existing hotels is one example of an incentive that might be particularly effective in today's financing environment.

Upper-Midscale is a relatively new category created to distinguish between different tiers of primarily limited-service hotel brands that were previously all classified within the “midscale” chain scale. Examples of brands in the upper-midscale chain scale include Comfort Suites, Fairfield Inn, Hampton Inn, Holiday Inn Express, Holiday Inn, and Wyndham Garden. Many of these upper-midscale brands are represented in both Niagara Falls, Ontario and Niagara Falls, New York. The four upper-midscale hotels located in Niagara Falls, New York include the Hampton Inn, Holiday Inn, Holiday Inn Express, and Comfort Inn. Several of the brands in this chain scale are currently looking for opportunities to expand their presence in the Niagara Falls region. Examples may include Fairfield Inn and TownePlace Suites by Marriott, Home2Suites by Hilton, and Comfort Suites by Choice.

Recommendation – We recommend encouraging the private sector to construct new properties in the upper-midscale chain scale or making investments in existing properties of a lower chain scale in order to convert them into upper-midscale hotels. However, because hotels in this category will have only limited potential for economic impacts, we do not recommend public sector financial incentives.

Midscale hotels are typically limited-service in scope and focused on a somewhat price-sensitive target market. These properties tend to compete with like properties within a very close geographic proximity to a highway, airport, military base, or tourism attraction. These hotels are sometimes constructed new, but sometimes are converted from a different hotel brand that has neared the end of its useful economic life. Examples of brands in the midscale chain scale include Best Western, Country Inn & Suites, Howard Johnson, LaQuinta, Quality Inn, and Ramada. Four of these midscale brands are represented in Niagara Falls, New York. These include the Best Western, Howard Johnson, and two Quality Inn hotels. Because hotels within the midscale chain scale offer relatively few services and amenities, they compete primarily on average rate in most markets. The intense rate competition from a large inventory of midscale hotels can create an environment that hinders higher-quality hotels from achieving average daily rates consistent with those found in markets that are not influenced by such a large inventory of midscale hotels.

Recommendation – We recommend encouraging the private sector to construct new properties in the midscale chain scale or making investments in existing properties of a lower chain scale in order to convert them into upper-midscale hotels. However, these properties should not be planned for locations

with strategic access to the conference center or key sites that will be instrumental in creating a densely developed dining and entertainment district along Old Falls Street between the State Park and the casino. Furthermore, because hotels in this category will have only limited potential for economic impacts, we do not recommend public sector financial incentives.

Economy hotels are typically rooms-only or offer very few services and guest amenities. Hotels in this chain scale are typically focused on a highly price-sensitive target market. These properties tend to compete with like properties within a very close geographic proximity to a highway, airport, military base, or tourism attraction, similar to midscale hotels. However, unlike midscale hotels, hotels in the economy chain scale are most frequently conversions from a different hotel brand that has neared the end of its useful economic life. Examples of brands in the economy chain scale include America's Best Value Inn, Budget Host, Days Inn, Econo Lodge, Knights Inn, Motel 6, Rodeway Inn, Super 8, and Travelodge. Fourteen of these economy brands are represented in Niagara Falls, New York. These include America's Best Value Inn, Budget Host, two Days Inn properties, two Econo Lodge properties, Knights Inn, Motel 6, Passport Inn, two Rodeway Inn properties, two Super 8 properties, and Travelodge. Because hotels within the economy chain scale offer very few services and amenities, they compete primarily on average rate in most markets. The intense rate competition from a large inventory of economy hotels can create an environment that hinders higher-quality hotels from achieving average daily rates consistent with those found in markets that are not influenced by such a large inventory of economy hotels; this effect is exacerbated in highly seasonal markets.

Recommendation – We do not recommend encouraging the development of economy hotel within the downtown study area. These properties should not be planned for locations with strategic access to the conference center or key sites that will be instrumental in creating a densely developed dining and entertainment district along Old Falls Street between the State Park and the casino. Because hotels in this category will have only limited potential for economic impacts, we do not recommend public sector financial incentives. Moreover, we recommend encouraging owners of existing economy hotels to invest to upgrade these properties or consider demolition, especially for properties that may be blighted or that receive consistently poor reviews from guests.

Independent hotels can range in quality from a quality that is lower than branded hotels in the economy chain scale to hotels that are as high in quality as branded hotels in the luxury chain scale. In markets characterized by a relatively high proportion of midscale and economy hotels, it is usually difficult for independently branded hotels to distinguish themselves as upscale or higher in quality. Two independent hotels in Niagara Falls, New York are similar in quality to upscale or upper-upscale hotels. These upscale independent properties are the Giacomo Hotel and the Seneca Casino Hotel. The vast majority of the remaining independent hotels in Niagara Falls, New York have quality levels that are similar or below the properties in the economy chain scale. Lower-quality independent hotels tend to compete with like properties within a very close geographic proximity to each other. These properties are frequently conversions from previously branded hotels that have neared the end of their useful economic lives. They frequently suffer from significant physical depreciation and functional obsolescence, such as exterior corridors and other outdated design features. HVS identified 21 independently branded hotels in the Niagara Falls, New York market area.

Recommendation – We recommend consideration of development proposals on a case-by-case basis. However, we do not recommend actively pursuing the development of independent hotels at this time. Any consideration of public incentives should be matched with a convincing demonstration of the likelihood to create economic impacts that exceed any public risk or expenditure to incentivize such developments. For example, due to the seasonality of the Niagara Falls market, consideration of an independent brand that features a target market that travels during non-peak seasons could be part of a rationale for public incentives.

Branding of Existing Hotels

As previously discussed, brands can serve as one proxy for quality in the hotel industry. Moreover, most major brands are part of a larger family of brands that feature loyalty programs for repeat customers.

Examples of some of the most successful loyalty programs in the hotel industry are HiltonHonors, Marriott Rewards, Hyatt's Gold Passport, InterContinental Hotels Group's Priority Club, and Starwood's Preferred Guest programs. These loyalty programs are so effective that in many markets the national reservation system of these brand families can account for 30% or more of the total business at these branded hotels. As a result, hotel owners pay substantial fees to be included in well-known and popular brands. Total franchise fees can often represent roughly 10% of gross rooms-department revenue. The proliferation and performance of an array of successful brands nationally and globally suggests that, for a large number of owners, this seemingly high cost of participation is worth the investment.

Another important characteristic of most national brands is the strict quality control and property improvement plans that owners are required to adhere to in order to maintain their flags (or brands). Hotel companies that license the use of their brands through franchise agreements or licensing agreements perform regular physical inspections; they review guest satisfaction surveys; and maintain approval rights for management companies selected by owners to operate their hotels. Moreover, hotel companies require ongoing capital improvements, known as PIPs or property improvement plans that require significant annual or periodic investment by owners to keep their hotels at a consistent quality with the national or global portfolio of hotels that share the same brand.

These quality controls do not exist for independently branded hotels. As a result, when owners of flagged hotels encounter severe financial difficulties, one common strategic consideration is to forfeit the flag. In the short-run, this saves money for an owner in two ways: firstly, the owner no longer needs to pay franchise fees; secondly, the owner is not required to make ongoing capital investments to maintain quality standards and consistency with the brand. However, the decision to forfeit a flag may have negative consequences in the long-run, as the property no longer benefits from the same national reservation system and loyalty program. Moreover, the decision to defer maintenance and capital improvements is often detected by guests and may lead them to choose alternative lodging options or negotiate rate reductions, thereby leading to a downward spiral of declining revenue and more deferred maintenance. As a property declines in this manner, its value also declines, thereby reducing the commercial property tax base and sometimes creating blight.

Currently, 23 of these 44 hotels in Niagara Falls are nationally branded. The following table lists each of the hotels located in Niagara Falls, New York. Hotels located in the downtown area are highlighted in blue. Branded hotels are ranked according to chain scale in descending order, then ranked by number of guestrooms within any given chain scale. Independently branded hotels are shown in the bottom half of the figure, ranked in descending order according to the number of guestrooms in each hotel.

Figure 1 – Hotel Brand Families and Chain Scales

Name of Hotel	Rooms	Brand Family	Chain Scale
Sheraton	391	Starwood	Upper-Upscale
Holiday Inn Niagara Falls	189	InterContinental	Upper Midscale
Comfort Inn The Pointe Niagara Falls	118	Choice	Upper Midscale
Hampton Inn Niagara Falls	99	Hilton	Upper Midscale
Holiday Inn Express & Suites Niagara Falls	87	InterContinental	Upper Midscale
Quality Inn Hotel & Suites @ The Falls	213	Choice	Midscale
Quality Inn Niagara Falls	94	Choice	Midscale
Best Western Summit Inn	88	Best Western	Midscale
Howard Johnson Closest To The Falls	80	Wyndham	Midscale
Howard Johnson	80	Wyndham	Midscale
Days Inn Niagara Falls	168	Wyndham	Economy
Motel 6 Niagara Falls	74	Accor	Economy
Super 8 Niagara Falls Buffalo Area	73	Wyndham	Economy
Econo Lodge @ The Falls North	66	Choice	Economy
Super 8 Niagara Falls	55	Wyndham	Economy
Days Inn Niagara Falls Buffalo	54	Wyndham	Economy
Travelodge Niagara Falls	45	Wyndham	Economy
Econo Lodge @ The Falls	43	Choice	Economy
Rodeway Inn & Suites Niagara Falls	31	Choice	Economy
Budget Host Niagara Falls	30		Economy
Knights Inn Niagara Falls	25	Wyndham	Economy
Rodeway Inn Niagara Falls	23	Choice	Economy
Americas Best Value Inn @ The Falls	22		Economy
Passport Inn Niagara Falls	18		Economy
Seneca Niagara Hotel & Casino	604		Independent
Niagara Falls Inn	88		Independent
Giacomo Hotel	38		Independent
Caravan Motel	32		Independent
Sunrise Inn	32		Independent
Swiss Cottage Inn	31		Independent
Red Carpet Inn Niagara Falls	30		Independent
Hospitality Inn	28		Independent
Niagara Rainbow Motel	26		Independent
Travelers Budget Inn	25		Independent
Bel Aire Motel	22		Independent
Niagara Falls Motel	22		Independent
Anchor Motel	21		Independent
Hillside Motel	21		Independent
Moonlite Motel	21		Independent
Driftwood Motel	20		Independent
Dunes Niagara Motel	19		Independent
Shiva` s Travelers Lodge	18		Independent
Sands Motel	17		Independent
Pelican Motel	15		Independent

The city's existing hotel inventory is heavily dominated by independent and economy hotels currently. The city's only upper-upscale hotel and three of its four upper-midscale hotels are located in the downtown area. However, several of the independent and economy hotels are also located on downtown sites that may have a higher and better use.

The following is a selection of the largest and most recognized national and global hotel companies and the brands included within each hotel company's family of brands.

Best Western – One Best Western property is located in Niagara Falls. The brand family does not have any brands in a quality tier above upper-midscale. The property in Niagara Falls represents the brand family's most well-known midscale brand.

Best Western (1)

Best Western Plus (0)

Best Western Premier (0)

Carlson – There are no properties from the Carlson family of brands located in Niagara Falls, New York. Carlson does not have any brands in the upper-upscale chain scale.

Radisson (0)

Park Inn (0)

Country Inn & Suites (0)

Choice – The Choice family of brands are well-represented in Niagara Falls, New York. The company's only upscale brand, namely, Cambria Suites is currently embarked on an aggressive expansion campaign. As part of this effort, the company has been willing to offer capital and financing incentives to developers in an effort to expand the brand's coverage nationally. We recommend inviting brand representatives to Niagara Falls to view one or more sites and existing buildings for possible conversion into an upscale Cambria Suites hotel. For example, Cambria Suites would represent an upgrade for the former Hotel Niagara or other economy hotels with highly visible downtown locations, such as the Days Inn. Two Rodeway Inn properties, one Econo Lodge, and a Quality Inn currently occupy highly visible downtown locations. We recommend encouraging owners to upgrade these properties; alternatively, we recommend demolition of any properties that represent blight or demonstrate consistently poor customer reviews or health code violations.

Cambria Suites (0)

Comfort Suites (0)

Comfort Inn (1)

Clarion (0)

Quality Inn (2)

Sleep Inn (0)

Mainstay Suites (0)

Suburban (0)

Econo Lodge (2)

Rodeway Inn (2)

Hilton – There is only one property from the Hilton brand family located in Niagara Falls, New York. This Hampton Inn hotel, despite its age, is one of the highest rated hotels in the city. We recommend initiating a competitive bidding process to develop one upper-upscale hotel at a strategic location within the downtown area. Both the Hilton brand and Embassy Suites brand should be considered during this competitive process.

Waldorf=Astoria (0)

Conrad (0)

Hilton (0)

Embassy Suites (0)

Doubletree (0)

Hilton Garden Inn (0)

Homewood Suites (0)

Hampton Inn (1)

Home2Suites (0)

Hyatt – No properties from the Hyatt family of brands are located in Niagara Falls, New York. The company's most prevalent upscale brand, namely, Hyatt Place is currently embarked on an expansion campaign. As part of this effort, the company occasionally considers offering capital and financing incentives to developers in an effort to expand the brand's coverage nationally. We recommend inviting brand representatives to Niagara Falls to view one or more sites and existing buildings for possible conversion into an upscale Hyatt Place hotel. We recommend initiating a competitive bidding process to develop one upper-upscale hotel at a strategic location within the downtown area. The Hyatt Regency brand should be considered during this competitive process.

Park Hyatt (0)

Hyatt Regency (0)

Hyatt Place (0)

Summerfield Suites (0)

InterContinental Hotels Group – The IHG family of brands is partially represented in Niagara Falls, New York. Although IHG's Crowne Plaza brand was recently replaced in the downtown area, the newly branded Holiday Inn is also an appropriate hotel brand for the downtown district. The city's Holiday Inn Express is located outside of the downtown area near the airport. These two properties both benefit from IHG's strong reservation system and loyalty reward program, making them two of the highest rated hotels in Niagara Falls, New York.

Andaz (0)

InterContinental (0)

Crowne Plaza (0)

Staybridge Suites (0)

Holiday Inn (1)

Holiday Inn Express (1)

Candlewood Suites (0)

Marriott – There is no hotel represented by the Marriott family of brands in Niagara Falls, New York. Given Marriott's extensive national coverage, this complete lack of representation is surprising and represents a substantial opportunity to capture demand from loyal Marriott customers who currently must stay in Buffalo, New York or Niagara Falls, Ontario when visiting the area. We recommend initiating a competitive bidding process to develop one upper-upscale hotel at a strategic location within the downtown area. The Marriott brand and Renaissance brand should be considered during this competitive process. Due to the potential for new economic impacts, we also recommend consideration of modest public incentives for any developer seeking to upgrade an existing property to a Courtyard, SpringHill Suites, or Residence Inn hotel or construction of a new hotel within these upscale brands.

Ritz-Carlton (0)

JW Marriott (0)

Edition (0)

Marriott (0)

Renaissance (0)

Courtyard (0)

SpringHill Suites (0)

Residence Inn (0)

Fairfield Inn (0)

TownePlace Suites (0)

Starwood - There is one hotel represented by the Starwood family of brands in Niagara Falls, New York, as the recent redevelopment and rebranding of a key downtown hotel asset has assumed the Sheraton brand. Given Starwood's extensive national coverage, this historical lack of representation is surprising and represents a substantial opportunity to capture demand from loyal Starwood customers who recently needed to stay in Buffalo, New York or Niagara Falls, Ontario when visiting the area. We recommend initiating a competitive bidding process to develop one upper-upscale hotel at a strategic location within the downtown area. The Westin brand could be considered during this competitive process. The current Holiday Inn was formerly a Four Points and we understand that a new Four Points hotel is currently planned in the city. The company's newest upscale brands, namely, aloft and element are currently embarked on expansion campaigns. As part of this effort, the company occasionally considers offering capital and financing incentives to developers in an effort to expand these brands' coverage nationally. We recommend inviting brand representatives to Niagara Falls to view one or more sites and existing buildings for possible conversion into an upscale aloft or element hotel.

St. Regis (0)

Le Meridian (0)

W (0)

Westin (0)
Sheraton (1)
Four Points (0)
aloft (0)
element (0)

Wyndham – The lower quality brands from the Wyndham family of brands are well-represented in Niagara Falls, New York.

Wyndham (0)
Hawthorne Suites (0)
Wingate (0)
Baymont Inn & Suites (0)
Howard Johnson (2)
Ramada (0)
Microtel (0)
Super 8 (2)
Travelodge (1)
Days Inn (2)
Knights Inn (1)

Key Conclusions: Since there are no upscale hotels and only one upper-upscale hotel in Niagara Falls, New York, almost all of the major brands are available. This represents an opportunity to identify the best match for the community's potential customer base and to maximize economic impacts to the city. Numerous successful brands, such as Embassy Suites, Hilton, Hyatt Regency, Marriott, Renaissance, and Westin are among the most likely prospects for the strategic development of an upper-upscale hotel to anchor a proposed dining, entertainment, and conference district along Old Falls Street. Moreover, the Marriott and Hyatt families of brands have no representation in Niagara Falls, New York. This is surprising given the nearly complete national coverage of Marriott and the extensive coverage by Hyatt. This represents a significant opportunity for development, as any Marriott or Hyatt brand would have a local monopoly on guests wishing to participate in the Marriott Rewards or Hyatt Gold Passport loyalty programs while visiting Niagara Falls, New York.

Target Market for Upper-Upscale Hotel

A primary recommendation of this technical memorandum is to actively pursue the development of a newly constructed upper-upscale, full-service hotel to be located strategically within a densely planned district featuring multiple restaurants and live entertainment venues. This district should take advantage of several key tourism assets already in place. These key tourism assets include the Niagara Falls State Park, Seneca Niagara Casino and Hotel, the Conference Center Niagara Falls, and the Sheraton hotel. The proposed new upper-upscale hotel should be situated and positioned to increase the density within

this district and to accommodate a large volume of corporate, leisure, and group business in downtown Niagara Falls.

The most compelling evidence informing any investor's opinion about the demand potential for a proposed upper-upscale hotel in downtown Niagara Falls, New York will be actual performance data from an appropriately-defined competitive set of like hotels. We evaluated the competitive inventory of hotels in Niagara Falls and the surrounding communities. One converted hotel (Sheraton) will have an upper-upscale brand located in Niagara Falls, New York. However, several upper-upscale hotels are located in nearby Niagara Falls, Ontario, which will represent the direct competition for any upper-upscale hotel planned in Niagara Falls, New York. A few of the higher-rated properties currently located in the downtown area, but that are not upper-upscale hotels, would also compete with the proposed new hotel. Some upper-upscale hotels located in Buffalo may also compete on a secondary basis.

Based on our review of several properties, we defined several hotels as primary and secondary competitors and we weighted their competitiveness based on our estimates of their demand segmentation, location, branding, amenities, and overall quality. These competitors include the following hotels:

- Sheraton (formerly Crowne Plaza)
- Holiday Inn
- Hampton Inn
- Hilton (Ontario)
- Sheraton on the Falls (Ontario)
- Embassy Suites (Ontario)
- Marriott (Ontario)
- Sheraton Conference Center (Ontario)
- Doubletree (Ontario)
- Hyatt Regency (Buffalo)
- Marriott Airport (Buffalo)

A new Embassy Suites that recently opened in downtown Buffalo might also be considered as new supply in a hotel market study for a proposed upper-upscale hotel in downtown Niagara Falls. The following tables summarize our estimates of how these primary and secondary competitors have performed in recent years.

Figure 2 – Primary Competitors

Property	Est. Segmentation			Estimated 2008			Estimated 2009			Estimated 2010		
	No of Rooms	Commercial	Meeting and Group	Leisure	Total Comp Level	2010 Weighted Annual Rm Count	Occ	Average Rate	RevPAR	Occ	Average Rate	RevPAR
Sheraton	391	15 %	40 %	45 %	100 %	391	61 %	\$108	\$66	58 %	\$110	\$64
Holiday Inn	189	20 %	15 %	65 %	100 %	189	59 %	83	49	57	102	58
Hampton Inn	99	20 %	10 %	70 %	100 %	99	73 %	111	81	67	106	71
Sub-Totals/Averages	679	17 %	28 %	55 %	100 %	679	62 %	\$102	\$63	59 %	\$107	\$63
Secondary Competitors	3,952	27 %	40 %	33 %	69 %	2,720	71 %	\$155	\$111	68 %	\$136	\$93
Totals/Averages	4,631	26 %	38 %	37 %	73 %	3,399	70 %	\$146	\$101	66 %	\$131	\$87

Figure 3 – Secondary Competitors

Property	Est. Segmentation			Estimated 2008			Estimated 2009			Estimated 2010		
	No of Rooms	Commercial	Meeting and Group	Leisure	Total Comp Level	2010 Weighted Annual Rm Count	Occ	Average Rate	RevPAR	Occ	Average Rate	RevPAR
Hilton Niagara Falls	965	30 %	35 %	35 %	75 %	724	77 %	\$148	\$114	72 %	\$131	\$94
Sheraton on the Falls	665	20 %	45 %	35 %	75 %	499	66 %	159	105	64	138	88
Embassy Suites	512	30 %	30 %	40 %	75 %	384	72 %	202	145	73	178	130
Marriott Niagara Falls	432	25 %	40 %	35 %	75 %	324	70 %	164	115	68	134	91
Sheraton Conference Center	402	20 %	50 %	30 %	75 %	302	72 %	163	117	61	139	85
Doubletree Niagara Falls	224	25 %	35 %	40 %	50 %	112	58 %	131	76	55	113	62
Hyatt Regency Buffalo	396	35 %	50 %	15 %	50 %	198	78 %	92	72	73	95	69
Marriott Buffalo Airport	356	40 %	40 %	20 %	50 %	178	65 %	131	85	71	122	87
Sub-Totals/Averages	3,952	27 %	40 %	33 %	69 %	2,720	71 %	\$155	\$111	68 %	\$136	\$93

Among the local competitive set, the Hampton Inn achieved the highest ADR. Despite its age and quality tier (upper-midscale), it achieved an ADR of \$114 in 2010 while maintaining one of the highest occupancy levels in the region, including the secondary competitors located in Ontario. A new, full-service, upper-upscale hotel with similar or superior location attributes should be able to achieve considerably higher ADR and RevPAR statistics in downtown Niagara Falls, New York.

Among the secondary competitors, the Embassy Suites achieved the highest ADR, at \$199 in 2010, by a measurable margin. This rate premium is due to a combination of advantages this hotel enjoys, namely, its proximate location to Niagara Falls, excellent views of the falls, new construction, two-bedroom all-suite product type, location within the Fallsview Tourism District that features the area's best restaurants, and proximity to the new Niagara Fallsview Casino. On average, the secondary competitors achieved an ADR of \$148 in 2010 with an average occupancy of 69%. The properties located in Niagara Falls, Ontario currently benefit from being located within well-defined districts that feature a broad array of restaurants, entertainment, shopping, and other tourism amenities. If a successful dining and entertainment district can be created in a densely packed area of downtown Niagara Falls, New York, this would create an opportunity for a new upper-upscale hotel to achieve comparable performance.

Advantages and Disadvantages

To estimate whether a new upper-upscale hotel in downtown Niagara Falls, New York would perform at a level below, within, or above the range demonstrated by hotels in the competitive set, we must first define the relative advantages and disadvantages likely to affect performance.

The following is a list of key advantages highlighted by the top competitors located in Niagara Falls, Ontario. Any proposed new hotel in downtown Niagara Falls, New York should seek to neutralize most or all of these advantages that competitors currently have.

Advantages

1. Strong Upper-Upscale Branding
2. Views of Niagara Falls
3. Proximity to Falls
4. Location within Restaurant/Tourism District
5. Overall Tourism Infrastructure and Funding
6. Proximity to Casino
7. Meeting Space

All major upper-upscale hotel brands are currently available for a proposed new development located in downtown Niagara Falls, New York. Therefore, the first advantage should be easily neutralized. Any new upper-upscale hotel should be built tall enough to feature views of Niagara Falls, partially neutralizing the second key advantage of the competitors; however, this advantage may never be fully neutralized due to the differences in views available on either side of the border. Proximity to Niagara Falls and the Niagara Falls State Park will be essential; any new hotel should be located within 100 yards of the entrance to the State Park and should have clear visibility to Niagara Falls. The creation of a well-defined dining and entertainment district is so essential to the proposed hotel's success that we would not recommend the development of an upper-upscale hotel unless a major dining and entertainment district is also created prior to or concurrent with the hotel's development. We recommend that the development of any upper-upscale hotel be located along Old Falls Street, between the State Park and the Seneca Niagara Casino. Finally, we recommend locating the proposed hotel adjacent to the existing conference center; moreover,

we recommend the development of roughly 18,000 square feet of meeting and banquet space within the proposed hotel, or a minimum of 60 square feet of function space per guestroom.

The following is a list of key disadvantages affecting the top competitors located in Niagara Falls, Ontario. Any proposed new hotel in downtown Niagara Falls, New York should seek to exploit these disadvantages that affect its competitors currently.

Disadvantages

1. Competition
2. Border Crossing
3. “Tourism Trap” Environment
4. Aging Properties

The size and number of upper-upscale properties located in Niagara Falls, Ontario creates intense rate competition during non-peak periods of demand. We recommend the development of hotel with a smaller inventory of rooms – roundly 300 – and the development of significant in-house meeting and banquet space to create a competitive advantage during non-peak periods of demand. Any well-managed, upper-upscale hotel would target U.S. citizens who may not be seeking a cross-border experience, but who prefer to stay at an upper-upscale hotel while in the area. We recommend commissioning an experienced master-planner, specializing in dining/entertainment districts, to help create a plan for a downtown dining and entertainment district that would offer a different experience than the Fallsview Tourism District and one that could be preferred by repeat visitors who feel the Fallsview Tourism District has become overly commercialized. High-quality construction materials and modern design features should become an advantage for any proposed new upper-upscale hotel developed in downtown Niagara Falls, New York.

Penetration Analysis

The most widely accepted methodology for projecting the demand potential of a new hotel development in the U.S. and globally, is a penetration analysis. This technique allows for the consideration of changes to competitive supply as well as competitive ranking of competitors to a proposed subject property across various potential demand segments. In a typical lodging market, there are at least three main demand segments present, namely, (1) commercial, (2) leisure, and (3) meeting/group business. In the Niagara Falls lodging market, demand is largely driven by the leisure segment. However, significant volumes of commercial and group demand exist in the marketplace. We considered each of these demand segments in our preceding analysis of the competitive set. During our penetration analysis, we make comparative rankings between the proposed new hotel and each of the existing and proposed competitors that make up the weighted competitive set discussed previously.

The following table illustrates our forecast of marketwide lodging demand (from the weighted set of U.S. and Canadian hotels) in each of the defined demand segments, based on our evaluation of historical growth rates in demand as well as our evaluation of demand that has historically been unaccommodated during peak sell-out demand seasons. The following table also considers the likely impact of proposed new supply on the marketwide occupancy.

Figure 4 – Marketwide Occupancy

	2011	2012	2013	2014	2015
Commercial					
Occupied Room Nights	220,469	224,878	229,376	233,437	235,766
Residual Demand	1,111	1,134	1,156	0	0
Accommodated Demand Growth	2.5 %	2.0 %	2.0 %	1.8 %	1.0 %
Meeting and Group					
Occupied Room Nights	322,526	335,427	342,135	357,454	360,938
Residual Demand	2,704	2,812	2,868	0	0
Accommodated Demand Growth	2.0 %	4.0 %	2.0 %	4.5 %	1.0 %
Leisure					
Occupied Room Nights	318,709	325,083	331,585	356,128	359,665
Residual Demand	17,918	18,276	18,641	0	0
Accommodated Demand Growth	3.0 %	2.0 %	2.0 %	7.4 %	1.0 %
Totals					
Occupied Room Nights	861,703	885,388	903,096	947,019	956,369
Residual Demand	21,733	22,222	22,666	0	0
Accommodated Demand Growth	2.5 %	2.7 %	2.0 %	4.9 %	1.0 %
Existing Supply	3,399	3,399	3,399	3,399	3,399
Proposed Supply					
Proposed Upper-Upscale Hotel ¹			300	300	300
Proposed Four Points by Sheraton ²		47	94	94	94
Available Rooms per Night	3,399	3,446	3,793	3,793	3,793
Nights per Year	365	365	365	365	365
Total Supply	1,240,635	1,257,885	1,384,354	1,384,354	1,384,354
Rooms Supply Growth	0.0 %	1.4 %	10.1 %	0.0 %	0.0 %
Marketwide Occupancy	69.5 %	70.4 %	65.2 %	68.4 %	69.1 %
¹ Opening in January 2013 of the 100% competitive, 300-room Proposed Upper-Upscale Hotel					
² Opening in July 2012 of the 75% competitive, 125-room Proposed Four Points by Sheraton					

As the national and global economy continues to recover from a severe economic recession, we anticipate continued modest levels of growth in market area demand and improving occupancies until new supply is introduced to the market in late 2012 and 2013; this new supply is likely to cause occupancies to decline until the new inventory can be absorbed. After the new properties open, we forecast modest growth rates until occupancies reach a level slightly below their forecasted peak in 2011 and 2012.

Within this competitive set, the proposed upper-upscale hotel is expected to outperform local hotels in the commercial and meeting/group segments, while underperforming in the leisure segment due to yield management strategies that will prevent significant rate discounting. The proposed hotel will underperform the secondary competitors in the commercial segment and slightly in the leisure segment, while slightly overperforming in the meeting/group segment against the secondary competitors. The following table shows the resulting occupancy and penetration rankings.

Figure 5 – Demand Penetration Assumptions

Market Segment	2013	2014	2015	2016
Commercial				
Demand	229,376	233,437	235,766	235,766
Market Share	8.0 %	8.2 %	8.3 %	8.3 %
Capture	18,383	19,048	19,581	19,581
Penetration	101 %	103 %	105 %	105 %
Meeting and Group				
Demand	342,135	357,454	360,938	360,938
Market Share	8.3 %	8.5 %	8.6 %	8.6 %
Capture	28,497	30,292	31,110	31,110
Penetration	105 %	107 %	109 %	109 %
Leisure				
Demand	331,585	356,128	359,665	359,665
Market Share	7.2 %	7.2 %	7.1 %	7.1 %
Capture	23,985	25,500	25,491	25,491
Penetration	91 %	91 %	90 %	90 %
Total Room Nights Captured	70,865	74,841	76,182	76,182
Available Room Nights	109,500	109,500	109,500	109,500
Subject Occupancy	65 %	68 %	70 %	70 %
Marketwide Available Room Nights	1,384,354	1,384,354	1,384,354	1,384,354
Fair Share	8 %	8 %	8 %	8 %
Marketwide Occupied Room Nights	903,096	947,019	956,369	956,369
Market Share	8 %	8 %	8 %	8 %
Marketwide Occupancy	65 %	68 %	69 %	69 %
Total Penetration	99 %	100 %	101 %	101 %

A penetration of only slightly above 100%, even though many of the competitors are much older properties and some are not even upper-upscale in quality, would produce an occupancy rate of roundly 70% in the forecasted market scenario. This is a compelling indication that significant demand potential exists for a proposed upper-upscale hotel, given adequate planning for the required advantages discussed in the preceding section of this memorandum.

Metrics from Comparable Hotels

The most convincing evidence for supporting assumptions about key revenue and expense ratios at a proposed upper-upscale hotel is real financial operating statements from similar hotels in similar market environments. Therefore, we have identified a set of confidential properties which share comparable quality, branding, design, and market position features to the proposed hotel.

The following three tables compare actual operating statements from five comparable hotels to the assumptions we have made for the proposed new hotel in Niagara Falls, New York. These comparisons are shown according to each of three commonly used methods of comparing expense ratios to revenue projections, namely:

1. As a Percentage Ratio to Sales
2. As a Dollar Amount Per Available Room
3. As a Dollar Amount Per Occupied Room

Figure 6 – Comparable Operating Statements – Percent of Revenue

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
Year:	2009/10	2007/08	2005	2003	2002	Stabilized \$ 2009/10
Number of Rooms:	440 to 550	280 to 350	320 to 400	310 to 390	310 to 390	300
Occupied Rooms:	133,610	84,773	97,366	88,908	84,720	76,650
Days Open:	365	366	364	365	365	365
Occupancy:	74%	74%	75%	70%	67%	70%
Average Rate:	\$170	\$183	\$137	\$128	\$151	\$165
RevPAR:	\$126	\$135	\$102	\$90	\$101	\$115
REVENUE						
Rooms	55.4 %	60.4 %	62.9 %	48.5 %	56.6 %	65.8 %
Food & Beverage	39.9	32.6	34.6	47.4	24.7	32.2
Other Operated	3.8	0.7	1.7	1.0	4.6	1.2
Other Income	0.9	6.3	0.8	3.1	14.1	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	26.6	21.6	24.4	26.9	25.8	25.0
Food & Beverage	65.6	62.9	70.7	72.5	93.7	70.0
Other Operated	82.4	58.8	123.2	138.6	67.4	100.0
Other Expenses	0.0	40.8	48.6	37.5	53.5	45.0
Total	44.0	36.5	42.3	50.0	48.4	40.6
DEPARTMENTAL INCOME						
	56.0	63.5	57.7	50.0	51.6	59.4
OPERATING EXPENSES						
Administrative & General	7.6	8.3	10.6	6.6	6.6	9.6
Marketing	7.1	2.7	6.1	6.9	5.9	5.0
Franchise Fee	0.0	3.6	4.6	0.0	0.0	0.0
Property Operations & Maintenance	3.4	3.9	3.7	3.5	3.3	4.9
Utilities	2.9	3.6	3.9	3.7	2.6	3.8
Total	21.0	22.0	28.8	20.7	18.5	23.3
HOUSE PROFIT						
	35.0	41.5	28.9	29.3	33.1	36.1
Management Fee	5.4	4.0	2.3	2.4	2.0	3.0
INCOME BEFORE FIXED CHARGES						
	29.6	37.4	26.5	26.9	31.1	33.1
FIXED EXPENSES						
Property Taxes	5.8	0.9	3.3	0.0	3.6	1.9
Insurance	0.6	0.5	0.1	1.2	1.3	0.8
Reserve for Replacement	4.0	4.0	4.0	4.0	4.0	4.0
Total	13.5	5.4	7.4	5.2	8.9	6.7
NET INCOME						
	16.1 %	32.0 %	19.1 %	21.7 %	22.2 %	26.4 %

* Departmental expense ratios are expressed as a percentage of departmental revenues

We have positioned each of the revenue and expense line items for the proposed hotel within the ranges demonstrated by comparable existing hotels.

Figure 7 – Comparable Operating Statements – Per Available Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
Year:	2009/10	2007/08	2005	2003	2002	Stabilized \$ 2009/10
Number of Rooms:	440 to 550	280 to 350	320 to 400	310 to 390	310 to 390	300
Occupied Rooms:	133,610	84,773	97,366	88,908	84,720	76,650
Days Open:	365	366	364	365	365	365
Occupancy:	74%	74%	75%	70%	67%	70%
Average Rate:	\$170	\$183	\$137	\$128	\$151	\$165
RevPAR:	\$126	\$135	\$102	\$90	\$101	\$115
REVENUE						
Rooms	\$45,840	\$49,470	\$37,047	\$32,786	\$36,896	\$42,136
Food & Beverage	33,001	26,700	20,379	32,058	16,104	20,646
Other Operated	3,143	565	1,019	697	2,983	774
Other Income	747	5,118	493	2,075	9,205	516
Total	82,731	81,853	58,939	67,616	65,188	64,073
DEPARTMENTAL EXPENSES						
Rooms	12,208	10,687	9,042	8,812	9,538	10,534
Food & Beverage	21,641	16,799	14,407	23,228	15,092	14,452
Other Operated	2,591	332	1,256	965	2,012	774
Other Expenses	0	2,089	240	777	4,925	232
Total	36,440	29,907	24,944	33,783	31,566	25,993
DEPARTMENTAL INCOME						
	46,292	51,946	33,994	33,832	33,621	38,080
OPERATING EXPENSES						
Administrative & General	6,301	6,780	6,220	4,454	4,324	6,162
Marketing	5,837	2,195	3,604	4,656	3,873	3,232
Franchise Fee	0	2,968	2,685	0	0	0
Property Operations & Maintenance	2,830	3,166	2,156	2,355	2,156	3,131
Utilities	2,431	2,927	2,320	2,535	1,723	2,424
Total	17,400	18,035	16,986	14,000	12,075	14,949
HOUSE PROFIT						
	28,892	33,911	17,008	19,832	21,546	23,131
Management Fee	4,431	3,275	1,384	1,616	1,272	1,922
INCOME BEFORE FIXED CHARGES						
	24,461	30,636	15,624	18,217	20,275	21,208
FIXED EXPENSES						
Property Taxes	4,807	719	1,958	0	2,318	1,244
Insurance	476	425	72	812	858	505
Reserve for Replacement	3,305	3,274	2,358	2,705	2,608	2,563
Total	11,152	4,418	4,388	3,517	5,784	4,312
NET INCOME						
	\$13,309	\$26,218	\$11,236	\$14,700	\$14,491	\$16,896

On a per-available-room basis, we have also positioned the revenue and expense line items for the proposed hotel within the ranges demonstrated by comparable existing hotels.

Figure 8 – Comparable Operating Statements – Per Occupied Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
	2009/10	2007/08	2005	2003	2002	Stabilized \$ 2009/10
Number of Rooms:	440 to 550	280 to 350	320 to 400	310 to 390	310 to 390	300
Occupied Rooms:	133,610	84,773	97,366	88,908	84,720	76,650
Days Open:	365	366	364	365	365	365
Occupancy:	74%	74%	75%	70%	67%	70%
Average Rate:	\$170	\$183	\$137	\$128	\$151	\$165
RevPAR:	\$126	\$135	\$102	\$90	\$101	\$115
REVENUE						
Rooms	\$170.17	\$182.65	\$136.60	\$127.59	\$150.68	\$164.92
Food & Beverage	122.51	98.58	75.14	124.76	65.77	80.81
Other Operated	11.67	2.09	3.76	2.71	12.18	3.03
Other Income	2.77	18.90	1.82	8.08	37.59	2.02
Total	307.12	302.22	217.31	263.14	266.23	250.77
DEPARTMENTAL EXPENSES						
Rooms	45.32	39.46	33.34	34.29	38.95	41.23
Food & Beverage	80.34	62.02	53.12	90.40	61.64	56.57
Other Operated	9.62	1.23	4.63	3.76	8.22	3.03
Other Expenses	0.00	7.71	0.88	3.03	20.11	0.91
Total	135.28	110.42	91.97	131.47	128.92	101.73
DEPARTMENTAL INCOME						
	171.85	191.79	125.34	131.66	137.31	149.04
OPERATING EXPENSES						
Administrative & General	23.39	25.03	22.93	17.33	17.66	24.12
Marketing	21.67	8.10	13.29	18.12	15.82	12.65
Franchise Fee	0.00	10.96	9.90	0.00	0.00	0.00
Property Operations & Maintenance	10.51	11.69	7.95	9.17	8.81	12.26
Utilities	9.03	10.81	8.56	9.86	7.03	9.49
Total	64.59	66.59	62.63	54.48	49.32	58.51
HOUSE PROFIT						
	107.26	125.21	62.71	77.18	88.00	90.53
Management Fee	16.45	12.09	5.10	6.29	5.19	7.52
INCOME BEFORE FIXED CHARGES						
	90.81	113.11	57.61	70.89	82.80	83.01
FIXED EXPENSES						
Property Taxes	17.84	2.65	7.22	0.00	9.47	4.87
Insurance	1.77	1.57	0.27	3.16	3.51	1.98
Reserve for Replacement	12.27	12.09	8.69	10.53	10.65	10.03
Total	41.40	16.31	16.18	13.69	23.62	16.88
NET INCOME						
	\$49.41	\$96.80	\$41.43	\$57.20	\$59.18	\$66.13

On a per-occupied-room basis, we have also positioned the revenue and expense line items for the proposed hotel within the ranges demonstrated by comparable existing hotels.

Financial Operations

After testing our financial assumptions against real financial statements of five comparable hotels, we are able to position the proposed hotel’s stable-year financial operating projections. However, for most full-service hotels of the proposed size and scope, a ramp-up period is needed to reach stabilization, as sales and marketing efforts may take more than a year or two to fully identify and attract the proposed hotel’s target market. Therefore, we project the following performance and financial operations for the proposed hotel.

Figure 9 – Financial Projections

	2013 (Calendar Year)			2014			Stabilized		
	300	300	300	300	300	300	70%	70%	POR
	65%	68%	70%	68%	70%	70%	\$191.18	\$191.18	POR
	\$180.21	\$185.62	\$191.18	\$185.62	\$191.18	\$191.18	\$133.83	\$133.83	POR
	\$117.14	\$126.22	\$133.83	\$126.22	\$133.83	\$133.83	\$85.00	\$85.00	POR
Occupied Rooms:	365	365	365	365	365	365	365	365	POR
REVENUE	71,175	74,460	76,650	74,460	76,650	76,650	76,650	76,650	POR
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	POR
	65.5	65.7	65.7	65.7	65.8	65.8	65.8	65.8	POR
Rooms	\$12,826	\$13,821	\$14,654	\$13,821	\$14,654	\$14,654	\$14,654	\$14,654	POR
Food	5,165	5,527	5,834	5,527	5,834	5,834	5,834	5,834	POR
Beverage	1,192	1,275	1,346	1,275	1,346	1,346	1,346	1,346	POR
Other Operated	237	255	269	255	269	269	269	269	POR
Other Income	158	170	180	170	180	180	180	180	POR
Total Revenues	19,579	21,048	22,283	21,048	22,283	22,283	22,283	22,283	POR
DEPARTMENTAL EXPENSES *									POR
Rooms	3,355	3,516	3,664	3,516	3,664	3,664	3,664	3,664	POR
Food & Beverage	4,608	4,827	5,026	4,827	5,026	5,026	5,026	5,026	POR
Other Operated	247	259	269	259	269	269	269	269	POR
Other Expenses	75	78	81	78	81	81	81	81	POR
Total	8,285	8,679	9,040	8,679	9,040	9,040	9,040	9,040	POR
DEPARTMENTAL INCOME	11,294	12,368	13,243	12,368	13,243	13,243	13,243	13,243	POR
UNDISTRIBUTED OPERATING EXPENSES									POR
Administrative & General	1,986	2,066	2,143	2,066	2,143	2,143	2,143	2,143	POR
Marketing	1,042	1,084	1,124	1,084	1,124	1,124	1,124	1,124	POR
Prop. Operations & Maint.	1,009	1,050	1,089	1,050	1,089	1,089	1,089	1,089	POR
Utilities	781	813	843	813	843	843	843	843	POR
Total	4,818	5,013	5,199	5,013	5,199	5,199	5,199	5,199	POR
HOUSE PROFIT	6,477	7,355	8,044	7,355	8,044	8,044	8,044	8,044	POR
Management Fee	587	631	668	631	668	668	668	668	POR
INCOME BEFORE FIXED CHARGES	5,889	6,723	7,376	6,723	7,376	7,376	7,376	7,376	POR
FIXED EXPENSES									POR
Property Taxes	381	420	433	420	433	433	433	433	POR
Insurance	166	171	176	171	176	176	176	176	POR
Reserve for Replacement	392	631	891	631	891	891	891	891	POR
Total	938	1,222	1,500	1,222	1,500	1,500	1,500	1,500	POR
NET INCOME	\$4,952	\$5,501	\$5,876	\$5,501	\$5,876	\$5,876	\$5,876	\$5,876	POR

*Departmental expenses are expressed as a percentage of departmental revenues.

These financial projections indicate a profitable hotel with net operating income available for debt service in the range of \$5.9 million annually upon stabilization.

Obstacles to Development

Even though the projected income potential for a proposed new upper-upscale hotel in downtown Niagara Falls, New York is substantial, there are numerous obstacles to development that have prevented such a development and could continue to prevent such a development. Many of these obstacles are not unique to Niagara Falls, New York. Rather, they are similar obstacles that many communities across the U.S. and Canada have encountered and must decide whether the investment to overcome these obstacles is affordable and worthwhile.

The following list provides an outline of the key obstacles to developing an upper-upscale hotel in today's capital markets and economic climate.

1. **Lack of Debt Financing** – Most hotel investors seek to maximize their return on equity by leveraging their equity investments with debt. The greater the loan-to-value ratio, the less equity is required and the higher the potential return on equity. Most banks are only willing to loan 50%-60% of a project's value, which implies an investor must find equity that is equivalent to 40%-50% of a project's value. Because equity is so much more expensive than debt, because of its riskier position within the capital stack, this is likely to make almost every proposed upper-upscale hotel project in almost every U.S. market infeasible, unless a sponsor with an excellent credit rating is willing to guarantee the loan, thereby inducing banks to offer a much higher loan-to-value ratio than they otherwise would be willing to provide.
2. **Supporting Tourism District** – A more specific obstacle affecting the downtown Niagara Falls market is the lack of a tourism district with adequate destination appeal and tourism amenities. Although the big tourism destinations are successful and tantalizingly present, the absence of a supporting dining and entertainment district is a key barrier to attracting a successful upper-upscale hotel project to downtown Niagara Falls, New York.
3. **Site Availability** – Although vacant land is prevalent in many parts of Niagara Falls, New York, the site selection process for a proposed upper-upscale hotel should be rigorous and key attributes will need to include visibility and walkability to both the Niagara Falls State Park and the Seneca Niagara Casino. There may be only three or four potential sites that would be suitable for a proposed upper-upscale hotel in downtown Niagara Falls, New York. Getting control of such a site may represent a significant obstacle to making an upper-upscale hotel project possible.
4. **Seasonality** – This is a critical risk that could be an obstacle to investment in this market; however, there are successful examples of upper-upscale hotel projects in markets that are equally or more seasonal. Examples of other highly seasonal markets include: Aspen and Telluride, CO; Anchorage, AK; Lake Tahoe, CA; Disneyland in Orlando, FL; the Hamptons, NY; and many other markets to greater or lesser degrees. Most markets or properties that target families on leisure trips experience significant seasonality related to both weather and children's school calendars. One possible strategy to mitigate this risk is to develop adequate meeting and banquet space to allow the property to target a broader mix of demand segments, relying somewhat less on the leisure segment. A second strategy to mitigate this risk is to obtain a strong brand that is part of a powerful reservation system that can be utilized to drive business to the hotel, through promotional packages, during non-peak demand periods.
5. **Glut of Low-Quality Hotel Inventory** – The current supply of economy and lower-priced independent hotels within the core downtown area of Niagara Falls, New York represents a significant obstacle to development of higher-quality hotels. Not only do these lower-quality competitors introduce intense price competition to the market, but they can also contribute to a perception of blight within the downtown area. This is one reason why the creation of an upscale dining and entertainment district is so important – to create at least one area of downtown that

clearly is not blighted. But it also may be necessary to redevelop or demolish some of the lower-quality hotel properties located on highly visible sites within the downtown area.

Together, these obstacles to development may create a long-term barrier to developers who wish to build upscale and upper-upscale hotels in Niagara Falls. One of the greatest barriers that many communities face is the lack of sufficient tourism destination appeal; with a State Park that attracts roughly 8.0 million visitors a year and one of the world's most popular natural resources within steps of the downtown study area, Niagara Falls may have more potential than many communities that have recently been able to overcome their respective obstacles to developing upper-upscale hotels.

Development Incentives

As discussed in the preceding section, the availability of debt financing is one of the biggest obstacles to hotel development in the current financing environment. Developers, operators, and hotel brands are all eager to participate in new hotel developments. But the lack of financing leverage is causing most upper-upscale hotel projects to be infeasible.

Therefore, we suggest that the most effective development incentive is going to be some instrument that will allow for increased leverage in financing a new hotel development. Additional forms of public incentives could include tax abatements, direct loan programs, or grant programs.

1. **Loan Guarantees** – A loan guarantee could allow a private investor or a public sector owner to get access to capital at a relatively inexpensive rate, thereby making any project more feasible than with traditional financing. This type of incentive could be used to various degrees both as incentive for an upper-upscale hotel development and as an incentive to encourage midscale hotels to upgrade to a higher chain scale.
2. **Bond Financing** – Revenue bonds or general obligation bonds would likely allow for the cheapest possible financing of an upper-upscale hotel. This scenario would likely require public ownership of the hotel. The benefits to public ownership are substantial; however, we are not in a position to advise whether the political and financial risks of public ownership would be considered acceptable.
3. **Tax Incentives** – Property tax abatement or the creation of a Tax Increment Financing district whose collections could be pledged as part of a loan guarantee are additional forms of incentives that would likely be somewhat effective in eliminating any financing gap currently preventing the development of an upper-upscale hotel as well as re-investment in lower-quality hotels.
4. **Direct Loan/Grant Programs** – Direct loans or grant programs could also be considered to spur the types of hotel development desired for the downtown area. However, these tend to be a very expensive form of incentive, since much more leverage could be created with a guarantee of the same amount that would have some reasonable chance of not being needed.

A wide variety of other incentives have been attempted successfully and unsuccessfully by other communities seeking to incentivize high-quality hotel developments. Examples range from subsidized land to infrastructure improvements as well as public ownership of related parking structures or conference space. We recommend keeping public financing open as a possible option, even if other incentives initially seem more attractive politically or economically.

Strategic Conclusions

We recommend actively pursuing the development of one upper-upscale hotel as part of a larger, master-planned dining and entertainment district in the downtown area. We further recommend encouraging existing hotels in the downtown area to invest in upgrading their quality and branding; a loan guarantee program could be an effective tool to accelerate such investment. Not only will this help to improve the

downtown image and the array of options available to tourists, but it will also help augment the sales and marketing efforts of the conference center because some groups require committable room blocks in upscale and upper-upscale hotels with nationally recognized branding. Moreover, we recommend the consideration of demolishing lower-quality hotel properties at highly visible locations within the downtown area if they do not invest or, especially, if they appear blighted and have a long-term history of deferred maintenance and poor customer satisfaction scores or health code violations. Any new development of an upper-upscale hotel may require significant public incentives and public financing may end up being the most economically affordable route to making such a project possible.



ECONOMIC AND MARKET ASSESSMENT: NIAGARA FALLS, NEW YORK



SUBMITTED TO:

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Date: June 15, 2011

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Technical Memorandum #3

Residential Analysis

Technical Memorandum #3

Residential Market Analysis

Niagara Falls, New York

Prepared by:

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Funded in part through a generous grant from:

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May 26, 2011

Mr. Christopher Schoepflin
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Dear Mr. Schoepflin:

We are pleased to submit the enclosed technical memorandum, which was prepared by Real Estate Strategies, Inc/RES Advisors. It addresses residential market conditions and market potential in Niagara Falls, New York.

Sincerely,

A handwritten signature in black ink that reads "Hans Detlefsen". The signature is written in a cursive style with a prominent initial 'H' and a long, sweeping tail on the 's'.

Hans Detlefsen
Managing Director
HVS Consulting and Valuation Services

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Technical Memorandum #3

Introduction

This technical memorandum provides information on the residential market in the downtown/tourist area delineated by USA Niagara Development Corporation (USAN). The information addresses conditions and market influences in the City of Niagara Falls, a broader housing market area, and the region that have a bearing on the performance of the residential market in USAN's target area.

Information on the existing housing stock, rent and price trends, and current housing conditions in the City of Niagara Falls and Niagara County was obtained from a number of different sources:

- In-person and telephone interviews with area real estate brokers, developers, and property owners/managers;
- The Census Bureau's 2006-2008 American Community Survey (ACS);
- Estimates and projections prepared by ESRI, a national vendor of demographic data;
- Home sales statistics collected by the Buffalo-Niagara Association of Realtors;
- Online sources reporting on properties offered for-sale and sold recently such as the National Association of Realtors, Zillow, and Trulia;
- Apartment guides, web sites for apartment properties, rental listings on Craig's List and other classified ad sources, and lists of affordable (subsidized or tax credit) rental properties targeting seniors and families.

Real Estate Strategies, Inc./RES Advisors (RES) surveyed rental properties and residential neighborhoods within the USAN target area and other areas of Niagara Falls to gain an understanding about the operation of the housing market in the City and to provide additional context for an assessment of the residential development environment. We also visited the two largest apartment buildings in downtown Niagara Falls, The Jefferson and The Giacomo, interviewed representatives and owners, and looked at units. We conducted a detailed inspection of downtown Niagara Falls and the target area and gathered information about amenities in the area to support potential residential redevelopment. We inspected residential properties in suburban communities in Niagara and Erie Counties and multifamily residential development projects in Buffalo.

The following summarizes the results of our analyses and presents recommendations for consideration by USAN.

Housing Supply

Housing Stock Characteristics: Niagara Falls and Niagara County

The population and number of households living in Niagara Falls has been declining for many years. In 1980, the City had 71,384 people and 27,272 households. By 2000, there were about 15,800 fewer people in the City and 3,173 fewer households. Estimates compiled since 2000 indicate ongoing losses. The U.S. Census Bureau's American Community Survey for the period 2007 through 2009 estimated that Niagara Falls had a population of 51,387 in 22,972 households. Estimates by ESRI indicate additional losses of population and households by 2010.

Since a household, by definition, is the people who occupy a single housing unit, declines in the number of households means that far fewer housing units are required. Typical housing market impacts from the loss of households include high levels of vacant housing units, deterioration of the existing housing stock, lower home values and sales prices, and very low levels of new housing construction.

Niagara Falls' housing stock exhibits all of these characteristics. Based on the ACS estimates, the City of Niagara Falls had 27,994 housing units during the three year period 2007 through 2009. Table 1 (following page) presents the ACS data on housing characteristics in the City, areas of Niagara County outside of the City, and Niagara County as a whole.

The following paragraphs summarize salient housing characteristics.

Tenure

Estimates in the ACS are that 56.5 percent of occupied housing units in the City are owner-occupied and 43.5 percent are renter-occupied. Homeownership is much higher in Niagara County as a whole – 70.7 percent overall. In the suburban and rural communities outside of Niagara Falls, more than three-fourths of housing units, 75.7 percent of all residential units, are owner-occupied.

Housing Vacancy

Vacancy rates are high in the City. Over the three year period 2007 through 2009 the vacancy rate averaged 21.9 percent. In contrast, the vacancy rate in other Niagara County jurisdictions was only 7.5 percent, or about one-third the vacancy rate registered in the City.

Vacancies in units intended for sale typically are lower than in apartments or rented houses and this has been the case in Niagara Falls. The ACS reported that about nine percent of owner-occupied units in the City were vacant. Units offered for rent comprised the majority of vacant units, 2,718. Another category, "other vacant units" also was a factor, and the Census Bureau listed 862 residential units in this classification. These vacant units usually are homes that are uninhabitable because of their poor condition. However, during the 2007 through 2009 time frame, it is likely that vacant properties in foreclosure would be classified as other vacant units.

Table 1: Housing Stock Characteristics

	City of Niagara Falls	Other Niagara County Places	Niagara County Total
Total Units	27,994	70,396	98,390
Occupancy Characteristics			
Occupied Units	22,972	65,477	88,449
Vacant Units	5,022	4,919	9,941
Overall Vacancy Rate	21.9%	7.5%	11.2%
Vacancy Status			
For Rent	2,718	951	3,669
Rented, Not Occupied	145	392	537
For Sale Only	1,211	844	2,055
Sold, Not Occupied	49	279	328
Seasonal, Recreational Use	37	691	728
Other Vacant	862	1,762	2,624
Tenure of Occupied Units			
Owner	56.5%	75.7%	70.7%
Renter	43.5%	24.3%	29.3%
Units in Structure			
1, detached	53.2%	70.7%	65.7%
1 attached	1.7%	1.8%	1.8%
2 units	20.3%	8.3%	11.7%
3-9 units	14.6%	8.7%	10.4%
10-19 units	3.1%	1.6%	2.0%
20-49 units	2.2%	1.4%	1.6%
50+ units	3.0%	2.0%	2.3%
Mobile home/other	2.0%	5.5%	4.5%
Year Structure Built			
2000 or later	0.9%	6.0%	4.6%
1990-1999	1.2%	10.5%	10.5%
1980-1989	2.2%	9.8%	9.8%
1970-1979	6.6%	13.3%	13.3%
1960-1969	5.9%	9.7%	9.7%
1950-1959	20.2%	16.4%	16.4%
1949 or earlier	63.1%	34.3%	42.5%
Median Year Built	1942	NA	1954
Estimated Value, Owner Occupied Units			
Under \$50,000	24.7%	8.9%	12.2%
\$50,000-\$99,999	61.9%	33.4%	39.4%
\$100,000-\$149,999	7.8%	29.0%	24.6%
\$150,000-\$199,999	3.1%	14.2%	11.9%
Over \$200,000	2.4%	14.5%	12.0%
Median Value	\$66,200	NA	\$96,900
Monthly Gross Rent			
No Cash Rent	3.9%	4.3%	4.2%
Under \$300	9.3%	7.7%	8.3%
\$300-\$499	26.0%	19.4%	21.9%
\$500-\$749	36.0%	42.8%	40.2%
\$750-\$999	15.3%	17.2%	16.4%
\$1,000 or more	9.5%	8.7%	9.0%
Median Gross Rent	\$576	NA	\$608

Notes: (1) Percentages may not add due to rounding; (2) Values of owner-occupied units reported in 2007 and 2008 are not adjusted for inflation.

Source: U.S. Census Bureau, American Community Survey, 2006-08; Real Estate Strategies, Inc./RES Advisors

Housing Types and Number of Units in Structures

Single family detached homes account for more than half of all City housing units (53.2 percent). Single family attached and duplex units comprise another 22.0 percent of the housing stock. Only 8.3 percent of the City's units are in multifamily buildings with ten units or more, and many of these are subsidized housing properties serving low-income families and especially seniors. Condominiums and townhouses comprise a relatively small share of the housing stock in both the City and Niagara County. This is not unusual in a market where single family home prices are affordable.

Age of Housing

More than 80 percent of the City's housing stock was built prior to 1950 and the ACS reported that only 4.3 percent of the City's housing units have been added since 1980. The age of the housing stock and the need for upgrades and repairs to a large percentage of older units puts Niagara Falls at a major disadvantage in attracting new residents, including young professionals and managers. In contrast, 26.3 percent of housing units in Niagara County and located outside the City have been built since 1980.

Housing Values and Price Trends

ACS respondents estimated that the median value of owner-occupied homes in the City during 2007 through 2009 was \$66,200. Countywide, the reported median value was much higher, \$96,900, and the median value was estimated to be well over \$100,000 in some suburban areas.

Almost one-fourth of owners in the City indicated their homes had a value below \$50,000. Because home values are low in Niagara Falls, and because only 52.4 percent of homeowners reported having a mortgage, ownership costs as a percent of household income are fairly low. Less than 30 percent of households reported spending more than 30 percent of their incomes on housing costs.

Data compiled by the Buffalo-Niagara Association of Realtors, which is presented in Table 2, indicates a similar pattern regarding home sale prices. Based on the data, the average price of homes sold in the City was less than \$60,000 in 2009. By contrast, the average in Lewiston (considered to be a desirable location north of the City with an easy commute to Niagara Falls jobs) was \$152,075. Realtors do not report a median sales price for the City. The median reported for Niagara County was \$90,000 in 2009 and \$97,168 during the first nine months of 2010.

Table 2 – Average Home Price Trends: Niagara County and Niagara Falls

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u>Number Sold</u>	<u>Average Price</u>	<u>Number Sold</u>	<u>Average Price</u>	<u>Number Sold</u>	<u>Average Price</u>
Niagara County						
Single Family	1,541	\$104,625	1,676	\$107,226	1,912	\$101,124
Condo/Townhouse	40	\$97,485	34	\$113,188	46	\$129,526
City of Niagara Falls						
Single Family	335	\$58,171	329	\$55,548	413	\$52,753
Condo/Townhouse	12	\$57,216	7	\$66,269	8	\$75,300

Source: Buffalo-Niagara Association of Realtors; Real Estate Strategies, Inc./RES Advisors

Because home values are low in both the City and the County and new construction activity has been very limited, the housing market was not dramatically affected by the national housing downturn. The notable exception is for the small number of condominiums and townhouses on the market during the time frame from 2007 through 2009, which saw substantial declines in the average sale price.

Rental Stock and Monthly Rents

The ACS reported a median gross rent (including monthly utility payments) of \$576 in the City. Only one in four City renters is paying more than \$750 per month. With this level of low overall rents, it will be difficult to develop new rental units without some type of subsidy or other government assistance. Information on median rents in Niagara County communities outside the City limits is not available in the ACS. However, the percentage of units with rents above \$750 per month is not much higher than in the City. The median gross rent reported by ACS for Niagara County overall was higher than in the City, \$608 per month. This higher rent likely results from a larger percentage of units with rents in the \$500 to \$749 range in areas outside of the City.

Despite generally low rents, a very high percentage of City households are burdened by rent and utility payments because their incomes are so low. The 2007-2009 ACS reported that 56.0 percent of households were spending more than 30 percent of income for rent.

As detailed below, the rental housing stock in and near Downtown Niagara Falls consists of two high rise buildings (each with fewer than 100 units), a few older apartment properties, and single family homes that are offered for rent. Some of the homes have been subdivided; others are rented as a single unit. Elsewhere within the Niagara Falls city limits, rental properties tend to be located near the Niagara County airport in the LaSalle neighborhood and in areas north of downtown that are near Niagara University. The complexes are older and some are quite small by today's standards. Many of the complexes near the airport show signs of deferred maintenance and most of the rental complexes in the City lack the amenities and unit features characteristic of newer rental complexes.

Suburban competition is more extensive, ranging from large, professionally managed complexes in the Buffalo suburbs to smaller properties in Lewiston. Older buildings tend to include heat and water/sewer service in their rents. In Lewiston, most apartment complexes date from the 1970s to early 1980s. Rents for one bedroom units start under \$600. Two bedroom rentals are more common in Lewiston and near Niagara University.

The newest complexes in the north/northeast Buffalo suburbs are located in Williamsville and East Amherst in Erie County. Rents are far higher than in the City of Niagara Falls with one bedroom apartments starting at over \$1,000, with only water and sewer included. Appendix A summarizes the characteristics of a sample of existing rental complexes located outside Downtown Niagara Falls and provides a map showing their locations. It should be noted that representatives of rental properties were unwilling to divulge their current occupancy rates.

Affordable Housing

The inventory of affordable rentals in the City of Niagara Falls includes public housing and privately-owned buildings for families and seniors with project-based federal rent subsidies provided through the Section 8 program. For both public housing and Section 8 properties, tenants pay 30 percent of their adjusted gross income for rent and utilities.

Low-Income Housing Tax Credit (LIHTC) allocations approved by the State of New York have been used to renovate older Section 8 buildings in the City rather than to fund new development

projects. In addition, the Niagara Falls Housing Authority is replacing some of its older, denser public housing for families with newer low-rise units. The Centre Court HOPE VI project is one example. Additional details on the LIHTC program are provided in a later section of this technical memorandum.

No public housing or Section 8 buildings, either for families or seniors, are located within the USA Niagara target downtown/tourist area. Family properties tend to be located well north of downtown. Three senior buildings, Spallino Towers, Niagara Towers, and Yorkshire Apartments, are located in the Pine Avenue area within a short distance of downtown. A summary of affordable properties for families, together with a map showing locations, is provided in Appendix B.

Appendix B includes information for five affordable family properties that have a total of 680 rental units. With the exception of Cornerstone Village, which has only 40 units, the properties have deep subsidies under the Section 8 program or have public housing subsidies.

Appendix C provides information about affordable senior housing. RES identified seven affordable senior buildings located in the City. Together, the senior buildings have a total of 824 units, although some units are occupied by non-elderly disabled persons. Managers reported that the vast majority of residents are single persons, mostly women. Appendix C provides information about these properties and other subsidized senior buildings located in Wheatfield and Lewiston. A map shows the locations of the properties.

The vast majority of tenants in public housing and Section 8 buildings have incomes below 50 percent of area median, or \$22,300 for a one-person household and \$25,500 for a couple. Generally, residents of these deeply subsidized properties tend to have incomes below \$15,000.

Housing In/Near Downtown

The current multifamily rental housing stock in the downtown area targeted by USAN is quite limited. There are two high-rise apartment buildings, The Jefferson with 94 units, and the Giacomo, a converted former office building that contains 24 apartments along with 38 boutique hotel rooms, and one floor of office space.

Buffalo Avenue Heritage District

The Buffalo Avenue Heritage District, which is located south and east of the downtown tourist core, contains a number of significant historic homes, but also a large number of scattered vacant lots that limit its cohesiveness. Excluding Parkway Condominiums, there are fewer than 50 homes in the area, which is bounded by Rainbow Boulevard, John B. Daly Boulevard, Old Main Street, and the Niagara Falls State Park. Although these homes have historic character, some have been converted to non-residential uses (primarily offices and bed-and-breakfast lodging). Others have been neglected and are in need of renovation.

During 2009 an in-depth report on the District, entitled “Buffalo Avenue Heritage District Revitalization Strategy” was completed, which addressed current conditions and presented a comprehensive vision for revitalization and development.¹ As described in the report, key assets of the District are its proximity to Niagara Falls State Park and its walkability.

¹ The August 2009 study was commissioned in 2007 and was prepared by Parsons Brinkerhoff for USA Niagara Development Corporation and the City of Niagara Falls. It describes the District and presents a vision for redevelopment that includes preservation and adaptive reuse along with infrastructure improvements.



Renovated and Unrenovated homes on Buffalo Ave



At the present time, the neighborhood is cut off from access to the riverfront by the Robert Moses Parkway, which was constructed fifty years ago. Current plans to redesign the riverfront area in this portion of downtown would improve resident access to the water and may better control highway-oriented through traffic.

The report indicated that most of the properties in the Buffalo Avenue Heritage District need attention, including not only fresh paint but renovation of windows, porches, roofs and gutters. Homeownership has declined; the report noted that a majority of buildings are occupied by businesses or other non-resident landlords and recommended zoning changes that would encourage revitalization. The recommended zoning changes were adopted by the City in 2009. The revitalization strategy included a list of needed streetscape and infrastructure improvements and offered design guidelines that would improve the area's attractiveness as a historic district and heritage tourism corridor. The report indicated that there are feasibility issues associated with rehabilitation and redevelopment and it offered a menu of potential programs that could be used to help with financial feasibility.

Sources of demand for new housing or businesses that might consider locating in the District were not identified. Planned activity late in 2010 included only the renovation of an existing vacant hotel located along Buffalo Avenue.

Niagara Street and Area to the North

The City's 2009 Comprehensive Plan² stated that renewal opportunities should be encouraged in the area along the north side of Niagara Street. In addition to parcels fronting on Niagara Street, the neighborhood to the north between Fourth and Eighth Streets is a sizable residential area in need of revitalization. Speculators were active in this neighborhood after plans for the Seneca casino were announced. When no immediate development demand emerged, buildings were allowed to deteriorate.

² Comprehensive Plan for the City of Niagara Falls USA, 2009. The vision for Niagara Street on page 56 is as a location for a mix of commercial uses that includes upscale retailers, together with residential development. Activity along Niagara Street is considered to be a key to stabilizing the residential neighborhood to the north and attracting new residential investment to it, among other benefits.

Scattered vacant lots (and in some locations, multiple lots) can be found where homes have been demolished or lost due to fires. In many cases, the vacant lots are located in the interior of blocks. Notable exceptions include vacant, multi-lot parcels at the following locations:

- Northeast corner of Fifth and Niagara Streets
- Northwest corner of Fifth and Ferry Streets
- East side of Fifth Street to the north of the Ferry Street intersection, with no frontage on the corner.
- Niagara Gazette employee parking lot, located on Fourth Street north of Niagara Street
- Northwest and southwest corners of Seventh and Ferry Streets

Niagara Street forms the northern boundary of the target area delineated by USAN and the residential neighborhood to the north is just beyond it. Based on its proximity, however, activity in this area will have an effect on the downtown/tourist area only a few blocks away. The properties are very visible to downtown visitors and, as the photos below indicate, properties on the northern side of Niagara are in very poor and dilapidated condition.



Properties on the North Side of Niagara Street near 7th Street. Building on the Right was For Sale

This neighborhood has a small number of non-residential structures, including a shuttered hospital with an interesting exterior (but reported to contain asbestos) and a furniture business (Cancemi Furniture). Both are located on the 500 block of Sixth Street). Also on this block is Carolyn's House, a 19-unit apartment property operated by the YWCA as a shelter for homeless and abused women and their children with units ranging in size from studios to three bedrooms. In addition to providing housing, Carolyn's House trains women in culinary arts and runs a contract catering business.

The condition of residential structures in the neighborhood varies, including the quality of design and upkeep. A recent windshield survey by the City and an accompanying review of property tax records found a mix of owner-occupied and rental buildings and a high degree of vacancy. Some single family homes have been converted to multiple apartments. The survey found that most blocks had one or more buildings in disrepair but the majority of structures were deemed to be sound. The windshield survey does not provide insight into the interior condition of the structures (e.g., electrical/mechanical systems, energy efficiency, etc.)



Homes North of Niagara Street in Poor Condition

For Sale Housing In/Near Downtown

To better understand home prices in and near Downtown Niagara Falls, RES compiled for-sale listings in zip codes 14301 and 14303 from Realtor.com, the web site of the National Association of Realtors and those appearing on Zillow.com and Trulia.com, two independent web sites that report listings and sales.

Table 3 provides a map key and information about homes that were listed during November 2010; Map 1 shows the location of each property.

Table 3 – Homes Listed For Sale In/Near Downtown Niagara Falls, November 2010

<u>Map #</u>	<u>Address</u>	<u>Zip Code</u>	<u>Bedrooms</u>	<u>Baths</u>	<u>Square Feet</u>	<u>Year Built</u>	<u>List Price</u>	<u>Comments</u>
1	530 10th Street	14301	5	2	2,104	1915	\$24,900	2 units
2	625 4th Street	14301	4	2	1,908	1890	\$34,000	
3	715 8th Street	14301	4	2	1,011	1890	\$37,900	
4	468 5th Street	14301	4	1	1,552	1910	\$39,900	
5	617 Buffalo Ave.	14303	4	2	2,510	1905	\$44,996	
6	544 5th Street	14301	5	3	2,905	1920	\$54,900	3 units
7	556 Memorial Pkwy	14301	4	1.5	2,286	1905	\$69,900	
8	760 4th Street	14301	4	1.5	1,904	1935	\$89,900	
9	1101 Ferry Ave.	14301	NA	NA	5,009	1930	\$89,900	Investment
10	728 Park Pl.	14301	4	1.5	1,972	1915	\$113,900	Renovated
11	574 3rd Street	14301	12	5	3,504	1918	\$168,333	Investment
12	125 6th Street	14303	7	3	3,142	1900	\$169,000	
13	353 Buffalo Ave.	14303	5	3	3,255	1814	\$250,000	
14	722 4th Street	14301	7	8	2,564	1915	\$275,000	Investment

Sources: Realtor.com, Zillow.com, and Trulia.com listings, week of November 8, 2010, RES

Map 1 – Locations of Homes Listed For Sale during November 2010



The Parkway, which is located at 151 Buffalo Avenue, is the only condominium building in the USAN target area. The building was originally constructed as a rental in 1963 and was converted to condominiums in 1982. The complex also includes ground floor office space, primarily for medical professionals, a community room, and off-street surface parking. Many upper floor units have attractive views of Niagara Falls, but the building's appearance is dated. Two-thirds of the apartments have only one bedroom.

Fifteen of Parkway's 163 units, or 9.2 percent of all units, were listed for sale in November 2010. Table 4 presents information on these listings, which range in asking price from a low of \$55,000 to over \$200,000.

Table 4 – Units Listed For Sale at The Parkway Condominium

<u>Unit Type</u>	<u>Unit Size (SF)</u>	<u>Listing Price</u>	<u>Price per SF</u>
1 BR/1 Ba	764	\$55,000	\$71.99
	764	\$68,900	\$90.18
	974	\$62,000	\$63.66
	985	\$68,900	\$69.95
	985	\$78,000	\$79.19
	1,064	\$78,900	\$74.15
	1,089	\$65,000	\$59.69
	1,089	\$71,500	\$65.66
2 BR/1 Ba	1,273	\$181,900	\$142.89
	1,273	\$195,000	\$153.18
	1,377	\$139,900	\$101.60
	1,377	\$139,900	\$101.60
2 BR/2 Ba	1,397	\$210,000	\$150.32
	1,510	\$169,900	\$112.52
	1,510	\$198,000	\$131.13

Source: Realtor.com; Real Estate Strategies, Inc./RES Advisors

RES has analyzed statistics about residential sales compiled by Trulia.com on the housing market in zip codes 14301 and 14303, along with data presented above on the characteristics of housing in and near the USAN target area. Based on the analysis, our own field inspections, and interviews that we conducted, the following summarizes general observations and issues related to sales housing.

- Given the number of properties in/near downtown (11,908 in the two zip codes in 2000), the number of homes listed for sale with professional real estate agents is relatively small. Trulia reported only 113 units listed for-sale during a recent week, or less than one percent of homes in the two zip codes.
- Consistent with the overall trend in the City and housing market conditions nationwide, the pace of sales is slow in both zip codes.
- Prices reported by Trulia for the time frame from September to November 2010 have declined substantially since the same period in 2009 in both zip 14301 (-22.9%) and 14303 (-44.9%). The median sales prices are lower in both zips than the median five years ago.
- Sales data and observations by RES indicate that many of the structures offered for sale are large. As shown in Table 3 above, half of the listed homes had more than 2,500 square feet of living space. Field observations indicate small lot sizes (with the exception of a few homes on Buffalo Avenue), with street frontages of less than 50 feet.
- The cost of renovating existing single family homes will far exceed their current values, even if renovation is limited to correcting structural problems and remediating health/safety issues. Interviewees reported that the need to correct lead paint problems is a costly barrier to renovation activity.

- With only one condominium building located in/near downtown Niagara Falls, private investors and developers have little information that would generate confidence in building new multifamily for-sale units.
- Realtors reported that property taxes are higher in Niagara Falls than in suburban jurisdictions, a factor that adversely affects home sales.
- With the exception of a portion of the City where children can attend the Niagara-Wheatfield Central School District, schools in Niagara Falls are reported to be an issue for families with children. Great Schools, a non-profit organization that evaluates schools throughout the U.S., has assigned a city ranking of five on a scale of ten to Niagara Falls; Niagara-Wheatfield's ranking is seven of ten and the Grand Island Central School District has a ranking of eight of ten.
- Prospective purchasers have concerns regarding neighborhood safety and the lack of amenities.

Downtown Rentals

The Jefferson, located on the northwest corner of Rainbow Boulevard and Third Street, is the largest rental apartment property in Downtown Niagara Falls. Current ownership acquired the eight-story property late in 2000. The building offers studio, one and two bedroom apartments and some furnished corporate suites. Studios have 415 square feet and rent for \$595 per month. One bedroom units (450-680 square feet) rent for \$595-\$695 per month. Two bedroom apartments have one bath, and range in size from 837 to 1,094 square feet. Monthly rents are \$795-\$1,295. All rents include heat and water. Corporate suites start at \$55 per day. Casino management transferees reportedly use these accommodations until they find more permanent locations. Many units on upper floors have views of the falls.



Management reported an occupancy rate of 94 percent at the end of September 2010. Tenants are casino employees, seniors, and Niagara University graduate students who like the location. Most tenants are singles; 30 percent are couples.

Units at *The Jefferson* are not air conditioned. Tenants must bring their own window units; management charges \$50 each season for installation and removal. Kitchens have electric ranges and most have granite countertops. Kitchen/eating areas have wood floors, and all units have built-in china cabinets. There is a cafe on the building's ground floor. Adjacent off street parking is available. The building has a keyed entry security system and intercom. Some units, occupied by long-time tenants, have not been renovated.

The owners of *The Jefferson* have developed three apartments above stores in the Third Street retail/entertainment area, and are renovating eight additional units in that area. Asking rents will be \$550-\$695, including water and sewer.

The Giacomo is a converted historic office building that opened in September 2008. It offers 24 apartments on the 8th through 17th floors including a two-story penthouse. There is a boutique hotel on the lower floors of the building and one floor of office space. Most of the residential floors have three units, of which two are one bedroom apartments. The highest floors have two-bedroom apartments. Units range in size from 1,066 to 2,742 square feet, so they are quite large by Niagara Falls standards. Features include open floor plans, bistro kitchens with cherry wood cabinetry, stainless steel appliances, breakfast bars or islands, and granite counters. Baths are equipped with whirlpool tubs. The units also offer ceiling fans and stackable washer/dryers. Tenants are given one or two assigned parking spaces in a gated lot.



Rents (\$1,395 to \$2,495) are high for Niagara Falls and also when compared with *The Jefferson*. Water and sewer are included in the rent; tenants pay electric, but the rates are low. Cable and Internet service cost \$70 per month. Tenants can use the hotel fitness center and conference room. There is a lounge on the 19th floor, but it is not accessible via the building's elevator. Managers reported that tenants are a mix of city employers, doctors, empty nesters, and Niagara University faculty/staff, with an average age of 40.

Rents at *The Giacomo* were even higher initially, but were recently lowered because only nine apartments were occupied at the time of our field visit during September 2010. The highest occupancy achieved for the apartments since the building opened was 50 percent. The upper floor units that RES visited had unusual, inefficient layouts and were not being maintained in a condition suitable for showing to a prospective tenant.

The Crick Court Apartments complex is located on the southeast corner of Sixth Street and Ferry Avenue. It has 1, 2, and 3 bedroom units. The complex seems not to be professionally managed and no information was available regarding rents or occupancy at this small complex.

Much of the rental supply near downtown Niagara Falls consists of single family homes or small multi-unit buildings with one to four units. Building conditions and quality vary; as a result, rents range widely. At the low end are one bedroom apartments that rent for as little as \$350 per month, plus utilities. At the top of the range are large furnished homes in good condition, with rents over \$1,200 per month. Typical rent ranges would be \$450 to \$575 for a one bedroom unit and \$525 to \$650 for a two bedroom unit, plus utilities.

Construction Activity: City of Niagara Falls and Niagara County

Relatively few building permits have been issued for new housing construction in the City over the past six years, and no permits at all were issued for 2010. As Table 5 shows, more than 2,400 permits were issued for new units in Niagara County between 2005 and 2010; the City captured less than six percent of this activity. Permits for new residential construction continued to be issued in Niagara County during 2008 and 2009, albeit at reduced levels. By 2010, however, the pace had slowed dramatically, and no permits were issued at all in Lewiston Village and Town, and also in Niagara Falls. Based on the permit data and conversations with Realtors, the Town of Wheatfield is the most active location for new construction. During the six year period, it captured 43.4 percent of all permits issued in the County.

Table 5 – Building Permits Issued, 2005 through 2010

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010*</u>	<u>6-Year Total</u>
New Privately-Owned Units Permitted							
Niagara County	473	560	571	336	394	90	2,424
City of Niagara Falls	1	0	41	48	51	0	141
Town of Wheatfield	203	305	254	71	162	56	1,051
Lewiston Village and Town	23	47	47	71	32	0	220
Percent of County Total							
City of Niagara Falls	0.2%	0.0%	7.2%	14.3%	12.9%	0.0%	5.8%
Town of Wheatfield	42.9%	54.5%	44.5%	21.1%	41.1%	62.2%	43.4%
Lewiston Village and Town	4.9%	8.4%	8.2%	21.1%	8.1%	0.0%	9.1%

The Census Bureau, which collects and assembles permit data, does not offer any information on the characteristics or locations of the units built, other than to indicate if they were single family or multifamily units. New residential units in Niagara Falls were in multifamily buildings with two units and in buildings with five or more units. Permits issued by Wheatfield were for a mix of single family and multifamily units.

It is important to note that not all permits that are issued actually result in the construction of a new residential unit, especially when economic conditions are not favorable.

Housing Demand

Demand for housing is a function of many factors, including:

- The strength of the regional and local economy -- new business creation, expansion of existing businesses, and job growth;
- Population growth and household formation;
- Consumer perceptions regarding home price trends and housing market liquidity;
- Housing affordability relative to household incomes;
- Characteristics of the housing stock;
- The need to replace dilapidated units, or those which by virtue of their age and condition no longer appeal to prospective buyers or renters;
- The advantages and disadvantages of particular locations within a market area with respect to nearby employment, neighborhood stability and safety, school quality, and proximity to shopping and recreation amenities.

Regional Employment Trends

Data from the New York State Department of Labor, which are presented in Table 6, indicate that total employment in the Buffalo-Niagara Falls metropolitan area (comprised of Erie and Niagara Counties) has declined over the last decade. From 2001 through 2010, the region registered an average annual net loss of over 1,200 non-farm jobs. Losses occurred in seven of the ten years. Looking as far back to 1995, the region's peak year for total employment was in 2000. While the table shows that the Buffalo-Niagara Falls area did not experience the strong job growth seen nationally between 2004 and 2007, it also did not suffer the dramatic losses experienced nationwide from 2008 through 2010.

With respect to private sector jobs, the region's decline was most dramatic in 2009, during the peak of the recession. In this year, alone, 14,600 private sector jobs were lost in the Buffalo-Niagara Falls region. On the positive side, private jobs showed a small uptick in 2010.

Table 6 – Average Annual Non-Farm Employment , Buffalo-Niagara Falls Metropolitan Area and U.S. (In Thousands)

Year	<u>Buffalo-Niagara Falls Metropolitan Area</u>				<u>USA</u>			
	Total Non-Farm Jobs	Percent Change from Previous Year	Private Sector Jobs	Percent Change from Previous Year	Total Non-Farm Jobs	Percent Change from Previous Year	Private Sector Jobs	Percent Change from Previous Year
2010	537.8	-0.1%	442.7	0.0%	129,818	-0.8%	107,337	-0.8%
2009	538.1	-2.5%	442.6	-3.1%	130,807	-4.4%	108,252	-5.3%
2008	552.1	0.8%	456.8	0.7%	136,790	-0.6%	114,281	-1.0%
2007	547.6	0.3%	453.4	0.1%	137,598	1.1%	115,380	1.1%
2006	546.2	-0.1%	452.8	-0.1%	136,086	1.8%	114,113	2.0%
2005	546.9	-0.2%	453.1	0.0%	133,703	1.7%	111,899	1.9%
2004	548.1	0.5%	452.9	0.5%	131,435	1.1%	109,814	1.3%
2003	545.5	-0.4%	450.7	-1.0%	129,999	-0.3%	108,416	-0.4%
2002	547.8	-0.4%	455.1	-0.8%	130,341	-1.1%	108,828	-1.7%
2001	550.0	-1.6%	458.7	-2.1%	131,826	0.0%	110,708	-0.3%
2000	559.1	0.9%	468.4	0.5%	131,785	2.2%	110,995	2.1%
1999	554.3	1.7%	465.9	1.7%	128,993	2.4%	108,686	2.5%
1998	545.3	0.2%	458.0	0.1%	125,930	2.6%	106,021	2.8%
1997	544.1	0.9%	457.4	1.2%	122,776	2.6%	103,113	2.9%
1996	539.1	0.0%	452.1	0.2%	119,708	2.1%	100,169	2.5%
1995	539.1	0.9%	451.4	1.2%	117,298	2.6%	97,685	0.7%

Sources: U.S. Bureau of Labor Statistics, New York State Department of Labor, Real Estate Strategies, Inc./ RES Advisors

Although the service sector -- and tourism in particular -- is now the key job generator, Niagara County's economy used to depend on chemical and metal manufacturing and hydroelectric power generation. Erie County evolved as the metropolitan area's banking and financial services center and it also is the home of the University of Buffalo and western New York's largest concentration of health care providers and medical research operations. Because Erie County's population is much larger, it also offers more shopping concentrations than in Niagara County.

Today, the largest single employer in Niagara County is the U. S. Air Force Reserve Station, with the Seneca Gaming Corporation in second place. In the City of Niagara Falls, the Seneca Nation is the largest employer, followed by the Niagara Falls City School District and Memorial Medical Center. Although the new Seneca casino and hotel have provided a major infusion of new jobs in the City over the last decade, total employment at Seneca operations in Niagara Falls has declined since 2007 due to the recession's impact on tourism and visitor spending. Other Niagara County employers have also contracted over the last two to three years.

Fortunately, the region's unemployment rate during the recession remained below the national average, as seen in Table 7.³ The unemployment rate in the two-county region in 2010 was 8.4 percent, compared with 9.6 percent nationwide. In 2007, prior to the recession, unemployment in the Buffalo-Niagara Falls metropolitan area was only 4.9 percent. Jobless rates in Niagara County tend to be somewhat higher than in Erie County; the unemployment rate in Niagara County in October 2010 was 7.8 percent (not seasonally adjusted).

Table 7 - Average Annual Unemployment Rates, Buffalo-Niagara Falls Metropolitan Area and U.S.

	<u>Buffalo-Niagara Falls Metropolitan Area</u> (percent)	<u>USA</u>
2010	8.4	9.6
2009	8.5	9.3
2008	5.9	5.8
2007	4.9	4.6
2006	5.1	4.6
2005	5.3	5.1
2004	5.8	5.5
2003	5.9	6.0
2002	5.6	5.8
2001	4.9	4.7
2000	4.3	4.0
1999	5.3	4.2
1998	5.4	4.5
1997	5.3	4.9
1996	5.1	5.4
1995	5.4	5.6

Sources: U.S. Bureau of Labor Statistics

Regional, County, and City Demographics

Buffalo-Niagara Falls Metropolitan Area

Estimates for 2010 and forecasts to 2015 for the two-county Buffalo-Niagara Falls metropolitan area were obtained from ESRI. The metropolitan area has an estimated 2010 population of 1,127,524 in 461,055 households. Population and household counts have declined since 2000 at

³ The high percentage of senior citizens in the metropolitan area contributes to a lower-than-average unemployment rate because most seniors are not in the labor force.

an annual rate of less than one half of one percent. The region lost more than 42,500 residents from 2000 to 2010, continuing a pattern of slow decline that goes back to 1990.

The loss of 7,664 households from 2000 to 2010 results in a decrease in demand for housing. At least a portion of this loss is due to the recent recession, which hampered new household formations and caused many young adults to double up or move back to their parents' homes in order to save money. ESRI's forecast for 2015 indicates that the trend will continue.

Niagara County and Niagara Falls Demographics

With an estimated 213,897 residents in 2010, Niagara County accounts for only 19 percent of the metropolitan area's total population and households. It is overshadowed by much-larger Erie County. The City of Niagara Falls is an even smaller fraction of the region with less than five percent of all residents. Given the concentration of jobs in Buffalo and its suburbs, it will be difficult for Niagara Falls to significantly improve its capture of regional housing demand, barring new job creation. Table 8 (following page) provides a summary of demographic characteristics for the City of Niagara Falls, Niagara County outside the City, and the County as a whole.

The data indicate that the City has lost population at a faster rate than Niagara County as a whole. With an estimated 2010 population of only 50,795, the City of Niagara Falls now accounts for less than one in four Niagara County residents. The number of residents and households in both the City and the County are projected to continue to decline through 2015. ESRI has projected that the City will lose an additional 1,537 residents during the period from 2010 to 2015; the County as a whole is projected to lose more than 3,000 people. Thus, roughly half the County's projected population losses will occur within the City of Niagara Falls. Projected population declines in the City and in Niagara County over the next five years contrast with very modest growth expected in the State of New York, and a 3.9 percent increase in households projected for the U.S. overall.

Population losses do not necessarily deter construction of new housing. Household growth can still occur if average household sizes resume their long-term decline as more single persons live alone and family households have fewer children. Prior to the recession, many cities lost population while still successfully building and marketing new rental and for-sale housing units. In some cases, housing was built in or near a city's downtown while, at the same time, housing units were being abandoned in less desirable neighborhoods of the same city.

However, Niagara Falls is losing households as well as people. Although some of the losses are undoubtedly due to recession-related doubling up, the decline in the number of households in the City over the last decade is consistent with the pattern of abandonment and housing demolition that has occurred. The neighborhood east of Daly Boulevard between Niagara Street and Buffalo Avenue is an example of clearance that took place without a specific plan for redevelopment and there has, in fact, been no new development in the area. Vacant houses are also evident north of Niagara Street and elsewhere within the City's limits.

Although statistics indicate that Niagara County overall lost households from 2000 to 2010, all of the losses occurred in the City. ESRI estimates indicate that the portion of the County outside Niagara Falls actually gained nearly 1,000 households from 2000 to 2010, although the forecast to 2015 shows small declines in the suburban and rural portions of Niagara County.

Table 8 – Population and Household Demographics, Niagara Falls, Niagara County, New York State, and the US

	City of Niagara Falls	Other Niagara County Places	Niagara County Total	New York State	USA
Population					
2000 Census	55,593	164,253	219,846	18,976,457	281,421,906
2010 Estimate	50,795	163,102	213,897	19,543,731	311,212,863
2015 Projection	49,258	161,565	210,823	19,736,749	323,209,391
Percent Change 2000-2010	-8.6%	-0.7%	-2.7%	3.0%	10.6%
Percent Change 2010-2015	-3.0%	-0.9%	-1.4%	1.0%	3.9%
Households					
2000 Census	24,099	63,747	87,846	7,056,860	105,480,101
2010 Estimate	22,440	64,735	87,175	7,259,376	116,761,140
2015 Projection	21,878	64,499	86,377	7,332,820	121,359,604
Percent Change 2000-2010	-6.9%	1.5%	-0.8%	2.9%	10.7%
Percent Change 2010-2015	-2.5%	-0.4%	-0.9%	1.0%	3.9%
2010 Average Household Size	2.23	NA	2.40	2.61	2.59
2010 Population by Age - Percent					
Under 15	18.8 %	17.8 %	18.0 %	19.2 %	20.0 %
15 to 24 Years	13.0	13.0	13.0	14.1	13.9
25 to 34 Years	12.3	11.9	12.0	13.2	13.3
35 to 44 Years	11.9	12.4	12.3	13.5	13.4
45 to 54 Years	14.8	16.1	15.8	14.8	14.6
55 to 64 Years	11.8	13.4	13.0	11.8	11.7
65 to 74 Years	7.6	7.9	7.8	6.9	6.8
75+ Years	9.8	7.6	8.1	6.7	6.3
2010 Median Age (years)	40.6	NA	41.3	37.7	37.0
2010 Population by Race - Percent					
White (alone)	71.2 %	93.6 %	88.3 %	64.8 %	71.9 %
African American (alone)	21.9	2.6	7.2	16.4	12.5
Asian (alone)	1.1	0.8	0.9	7.0	4.7
All Other	5.8	3.6	4.1	11.9	10.9
Hispanic Origin	2.8	1.8	2.0	17.1	16.2

Sources: U.S. Bureau of the Census; ESRI; Real Estate Strategies, Inc./RES Advisors

By race, the vast majority of residents in the City and County are white. In contrast to the State of New York and the U.S. as a whole, Niagara County a surprisingly small share of Asians and Hispanics. Immigration has helped to stabilize and even reverse population losses in other older industrial cities during the last decade, but this has not been the case in Niagara County.

Both the City and the County have an above-average share of senior citizens when compared to the U.S. as a whole. In Niagara Falls during 2010, 17.4 percent of residents are age 65 and older. Nationally, the comparable share is 13.1 percent. Seniors are particularly hurt by Niagara Falls' weak housing market. Due to the low home values, senior homeowners who want to sell are likely to have insufficient equity to buy or rent in a retirement community, either in the Buffalo-Niagara Falls metropolitan area or in other parts of the country.

Table 9 provides estimates by ESRI of the income of households in Niagara Falls, Niagara County, and places in the County outside of Niagara Falls during 2010. In the City the median income was only \$36,316. For Niagara County as a whole, the median income was \$49,560 -- 36.4 percent higher. This disparity is an indication of the high concentration of households with incomes below poverty in Niagara Falls, a circumstance that limits the ability of households to afford new or renovated housing. More than one in five Niagara Falls households has income below \$15,000, and only 18.3 percent of households have income of \$75,000 or more. Incomes are much higher in Niagara County's suburban and rural communities. Nearly one third of suburban and rural households have incomes higher than \$75,000, while fewer than 20 percent have incomes below \$25,000.

Table 9 – Household Income Estimates for 2010

<u>Income Range</u>	<u>City of Niagara Falls</u>		<u>Other Niagara County Places</u>		<u>Niagara County Total</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than \$15,000	4,600	20.5%	5,774	8.9%	10,374	11.9%
\$15,000-\$24,999	3,254	14.5%	5,987	9.2%	9,241	10.6%
\$25,000-\$34,999	3,052	13.6%	6,799	10.5%	9,851	11.3%
\$35,000-\$49,999	3,568	15.9%	10,990	17.0%	14,558	16.7%
\$50,000-\$74,999	3,860	17.2%	14,796	22.9%	18,655	21.4%
\$75,000-\$99,999	2,244	10.0%	10,396	16.1%	12,640	14.5%
\$100,000-\$149,999	1,346	6.0%	7,197	11.1%	8,543	9.8%
\$150,000+	516	2.3%	2,797	4.3%	3,313	3.8%
Total Households	22,440		64,735		87,175	
Median Income	\$36,316		\$54,305		\$49,560	
Average Income	\$46,768		\$64,393		\$59,856	

Source: ESRI; Real Estate Strategies, Inc./RES Advisors

Replacement Demand

The analysis of the City's housing stock presented previously shows that 63.1 percent of all units (17,655 units in the 2007-2009 ACS) were built prior to 1950. A common rule of thumb is that one percent of this older housing stock should be replaced every year, or 177 units annually. Building permit data clearly show that the City's older housing stock is not being replaced at levels that are even close to this rate. However, there is no need to replace housing units when losses of households exceed the estimated replacement demand, which is the case in Niagara Falls. From 2000 to 2010, the number of households in the City declined by an average of 166 households annually, or a number very similar to the replacement demand. Therefore, there is very little need to replace obsolete housing units in Niagara Falls.

Employment-Related Housing Demand

When considering demand for downtown housing, the strongest source of potential residents usually comes from the people who are employed there. However, as has been discussed in another technical memorandum, the employment base within a mile of downtown is not especially strong and annual wages are low. An estimated 9,655 people work in and near downtown with the casino, downtown hotels, and Memorial Medical Center generate the majority of jobs in or near downtown.

Although the limitations are real, RES considers workforce housing to be the most promising possibility for jump-starting new housing demand in downtown Niagara Falls. Our recommendation is that USAN and the City of Niagara Falls pursue development of mixed-income rental housing with market-rate and affordable apartments designed primarily to serve younger households with one or more persons employed in downtown Niagara Falls. Most of the rental apartments should have one and two bedrooms. Details about a recommended first phase development program are provided in a later section of this technical memorandum.

Places of Residence, Seneca Gaming Corporation Employees

The Seneca Gaming Corporation shared data on the zip codes of residence of the 2,400+ employees who work in the casino in the City of Niagara Falls. The information is summarized in Table 10. The numbers include persons working in the casino, hotel, and the headquarters office building on Third Street. Zip codes located wholly or partially within the City of Niagara Falls account for more than 42 percent of all workers, but there is no way to know how many employees actually reside within the City limits.

Niagara County residents account for 61.8 percent of all workers, but the zip code analysis suggests that relatively few workers come from the eastern portion of the County. This may be a result of employees' concern about ease of travel. An examination of the road system indicates that east-west access from more rural and remote towns in eastern Niagara County is difficult.

Another 34.3 percent of workers live in Erie County, with a significant 12.2 percent commuting from zip codes present in the City of Buffalo. The interstate highway system accommodates this type of commuting, but congestion during the height of the tourist season and weather-related delays during the winter months suggest that long commutes can be burdensome for workers and problematic for the employer.

Table 10 – Zip Codes of Residence, Seneca Gaming Corporation Employees

<u>Zip Code of Residence</u>	<u>Number of Employee</u>	<u>Percent of Total</u>
<u>Niagara County</u>		
Niagara Falls	1,041	42.8%
N. Tonawanda	152	6.2%
Lewiston	115	4.7%
Lockport	54	2.2%
Other Niagara County	<u>141</u>	<u>5.8%</u>
Subtotal, Niagara County	1,503	61.8%
<u>Erie County</u>		
Buffalo	297	12.2%
Tonawanda	102	4.2%
Grand Island	85	3.5%
Cheektowaga	53	2.2%
Other Erie County	<u>297</u>	<u>12.2%</u>
Subtotal, Erie County	834	34.3%
Other NY State	39	1.6%
Other states	7	0.3%
Canada	50	2.1%
Total, All Employees	2,433	100.0%

Source: Seneca Gaming Corporation; Real Estate Strategies, Inc./RES Advisors

Very few employees commute from Canada. Travel delays at U.S. Customs due to heightened security screenings may account for this. Also, the current parity between the dollar and the loonie has eliminated the economic advantages that Canadians used to enjoy by working in the U.S. and getting paid in U.S. dollars. Although housing prices are significantly lower on the U.S. side than in Canada, RES does not anticipate that there is much potential for drawing Canadian citizens to live on the U.S. side of the border. Interviews with real estate brokers indicate that there is some Canadian interest in buying in Niagara Falls, New York, but as investors (absentee landlords) rather than as a primary residence. Some Canadians also look for vacation properties in New York State, but these tend to be in more rural locations.

Earnings of Downtown Workers

To learn more about the potential for developing workforce housing downtown, RES obtained information from Seneca Gaming Corporation regarding average wages for their employees. The average base wage for all employees (including the casino, hotel, and offices) is \$12.70 per hour. This figure does not include tips, which are earned by a high percentage of the casino and restaurant employees. For example, the average hourly wage for dealers is only \$5.50, but they earn an average of \$13 per hour in tips. For servers, the comparable figures are \$5.25 and \$6, respectively, and for slot machine attendants, \$8.50 and \$12.

Translating these figures into annual household incomes and comparing them with eligibility for government housing finance programs is problematic. Looking only at the average base wage of \$12.70, and assuming a standard work year of 2,080 hours, the average worker earns \$26,416. Based on these data, it is likely that some employees at the casino complex would qualify for affordable housing with Low-Income Housing Tax Credits if they were their family’s sole wage earner. The experience of many family-oriented LIHTC buildings is that the typical tenant is a single parent with one or two children. A household with two full time workers earning the average wage would be unlikely to qualify.

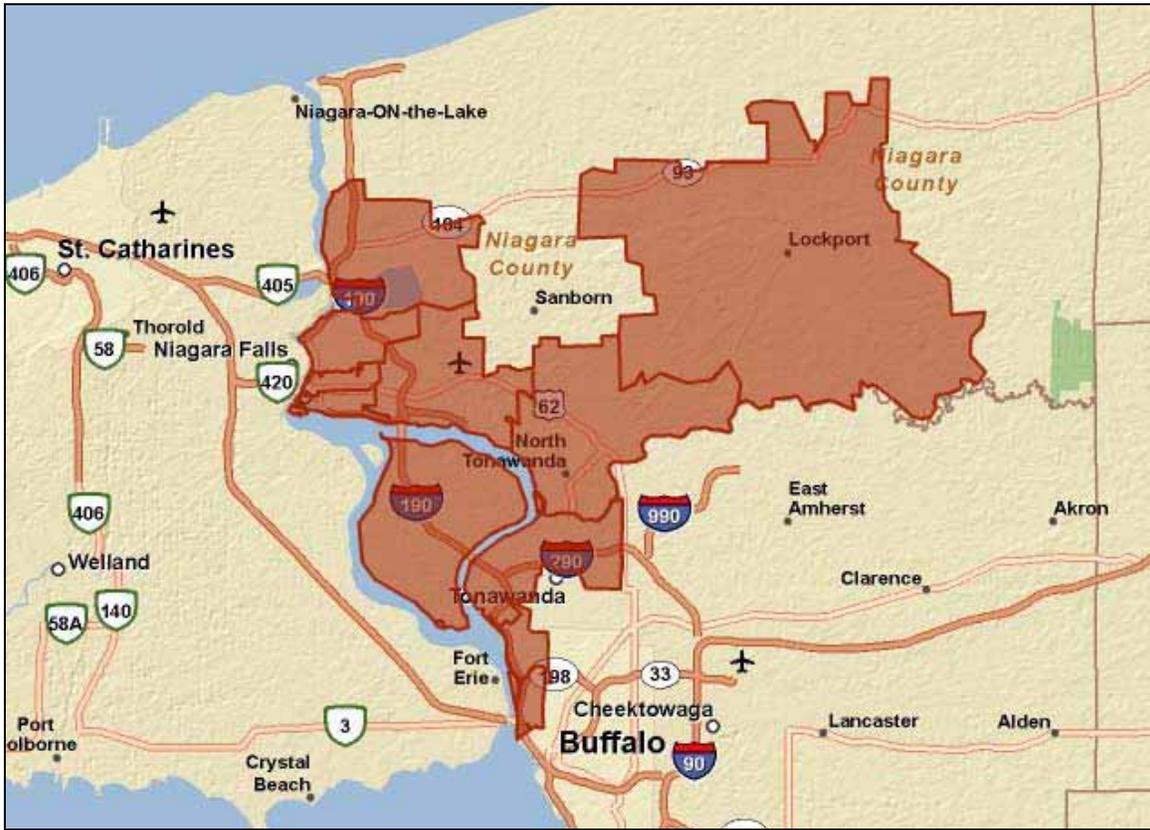
Demand from Workers at the Medical Center

RES was not able to obtain similarly-detailed data for employees of Memorial Medical Center. Based on our experience in other cities, it is likely that low-and moderate-income hospital workers who would be eligible for assisted housing are living within a closer commuting distance of their place of employment than casino workers. Wage and salary survey data for the Western New York Region indicate that the average annual entry-level wage for healthcare support occupations is \$19,980 while the mean annual wage is reported to be \$27,080. Interviews indicated that attending physicians and other high-salary medical professionals are likely to live in upscale suburbs, such as Lewiston or Grand Island, that are within an easy commute of the Medical Center.

Primary Market Area for Workforce Housing

RES has defined a primary market area (PMA) for workforce housing intended for general occupancy that is based on the current place of residence of employees at the Seneca casino. The PMA, which is shown in Map 2, includes all zip codes where 50 or more of Seneca Gaming's current employees reside. The PMA includes all of the City of Niagara Falls, a portion of the City of Buffalo proximate to I-190, and suburban areas.

Map 2 – Primary Market Area for Workforce Housing



This is not to say that residents of other zip codes would not be part of the market for workforce housing; these zip codes merely represent the densest concentrations of potential residents. In addition to Seneca Gaming, employees at other businesses and government agencies located in or near downtown Niagara Falls would be part of the potential demand for workforce housing.

PMA Demographics

Demographics for the PMA are summarized in Table 11 on the following page. The PMA has an estimated population of nearly 278,000 in 115,292 households. The PMA's population accounts for 25 percent of all households in metropolitan Buffalo-Niagara Falls.

As is the case in both the City of Niagara Falls and Niagara County, ESRI estimates that the total number of residents and households in the delineated workforce housing PMA has been declining, a trend that is expected to continue to 2015. However, the rate of decline is slower in the PMA than in the City of Niagara Falls, alone. The population of the PMA is slightly younger than the City and there is a higher percentage of Hispanics, although still less than the national average.

Table 11 – Selected Demographic Characteristics, Workforce Housing PMA

<u>Population</u>	
2000 Census	289,923
2010 Estimate	277,917
2015 Projection	272,186
Percent Change 2000-2010	-4.1%
Percent Change 2010-2015	-2.1%
<u>Households</u>	
2000 Census	117,941
2010 Estimate	115,292
2015 Projection	113,504
Percent Change 2000-2010	-2.2%
Percent Change 2010-2015	-1.6%
<u>2010 Average Household Size</u>	2.36
<u>2010 Population by Age - Percent</u>	
Under 15	18.4 %
15 to 24 Years	13.4
25 to 34 Years	12.5
35 to 44 Years	12.2
45 to 54 Years	15.4
55 to 64 Years	12.6
65 to 74 Years	7.4
75+ Years	8.1
<u>2010 Median Age (years)</u>	39.9
<u>2010 Population by Race - Percent</u>	
White (alone)	83.4 %
African American (alone)	9.0
Asian (alone)	1.4
All Other	6.1
Hispanic Origin	5.5
<u>2010 Employed Population Age 16+ by Occupation</u>	
White Collar	59.0 %
Services	19.2
Blue Collar	21.8

Sources: ESRI; Real Estate Strategies, Inc./RES Advisors

Working-Age Households by Age and Income

Table 12 summarizes the household income characteristics of the PMA's 86,770 working-age households (under age 65). For new market-rate rental housing or condominiums, analyses by RES indicate that the target market is households earning between \$35,000 and \$75,000. For workforce housing (with limits on maximum household income), the target market is households earning \$20,000 to \$35,000, depending on household size.

Table 12 – PMA Working-Age Households by Income and Age of Householder

Number of Households	Age Cohort					Total Working Age Households
	< 25	25-34	35-44	45-54	55-64	
Income Band						
<\$15,000	1,847	2,396	1,798	2,250	2,680	10,971
\$15,000 - \$24,999	1,079	2,026	1,759	1,488	1,689	8,041
\$25,000 - \$34,999	540	2,256	2,011	1,976	1,874	8,657
\$35,000 - \$49,999	700	3,078	3,305	3,248	3,122	13,453
\$50,000 - \$74,999	509	4,169	4,855	6,200	4,552	20,285
\$75,000 - \$99,999	340	1,778	3,142	4,875	3,411	13,546
\$100,000 - \$149,999	236	658	1,487	3,920	2,554	8,855
\$150,000+	198	343	495	1,022	904	2,962
Total Households	5,449	16,704	18,852	24,979	20,786	86,770
Median Household Income	\$22,390	\$41,805	\$51,764	\$61,440	\$53,906	
Average Household Income	\$39,032	\$49,225	\$59,426	\$70,834	\$64,628	

Percent of Households	Age Cohort					Percent, Working Age Households
	< 25	25-34	35-44	45-54	55-64	
<\$15,000	33.9%	14.3%	9.5%	9.0%	12.9%	12.6%
\$15,000 - \$24,999	19.8%	12.1%	9.3%	6.0%	8.1%	9.3%
\$25,000 - \$34,999	9.9%	13.5%	10.7%	7.9%	9.0%	10.0%
\$35,000 - \$49,999	12.8%	18.4%	17.5%	13.0%	15.0%	15.5%
\$50,000 - \$74,999	9.3%	25.0%	25.8%	24.8%	21.9%	23.4%
\$75,000 - \$99,999	6.2%	10.6%	16.7%	19.5%	16.4%	15.6%
\$100,000 - \$149,999	4.3%	3.9%	7.9%	15.7%	12.3%	10.2%
\$150,000+	3.6%	2.0%	2.6%	4.2%	4.3%	3.4%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Data Notes: (1) Percentages may not add due to rounding. (2) Income reported for July 1, 2010 represents annual income for the preceding year, expressed in current (2009) dollars, adjusted for inflation.

Source: ESRI; Real Estate Strategies, Inc./RES Advisors

The estimates in Table 12 indicate the likelihood of good demand for workforce housing based on the large percentages of young households – those headed by householders under 25 with incomes in the range from \$25,000 to \$50,000. In absolute numbers, an estimated 1,240 households had 2010 incomes estimated to be in this range; 1,079 additional young households with incomes ranging from \$15,000 to \$24,999 might qualify for affordable units in a rental property targeted to downtown workers.

Senior Housing Demand

For age-restricted housing to serve senior citizens, the Primary Market Area would be much smaller than for workforce housing. Although senior buildings in the City of Niagara Falls are well occupied and most have waiting lists, interviews indicate that it will be difficult to attract older adults (and especially older suburbanites) to residential properties in downtown Niagara Falls because of the lack of nearby amenities and services and concerns about crime and safety.

Table 13 provides estimates of the number of households with persons age 55 and older who were living in the City of Niagara Falls during 2010.

Table 13 – City of Niagara Falls 2010 Households Age 55 and Older by Householder Age and Income

Number of Households	Age Cohort			Total Senior Households
	55-64	65-74	75+	
Income Band				
<\$15,000	783	524	950	2,257
\$15,000 - \$24,999	452	488	753	1,693
\$25,000 - \$34,999	488	475	604	1,567
\$35,000 - \$49,999	586	367	492	1,445
\$50,000 - \$74,999	673	341	336	1,350
\$75,000 - \$99,999	383	158	187	728
\$100,000 - \$149,999	282	152	106	540
\$150,000+	<u>112</u>	<u>41</u>	<u>94</u>	<u>247</u>
Total Households	3,759	2,546	3,522	9,827
Median Household Income	\$38,069	\$29,613	\$25,685	
Average Household Income	\$50,452	\$41,384	\$36,700	

Percent of Households	Age Cohort			Percent Totals
	55-64	65-74	75+	
<\$15,000	20.8%	20.6%	20.6%	23.0%
\$15,000 - \$24,999	12.0%	19.2%	19.2%	17.2%
\$25,000 - \$34,999	13.0%	18.7%	18.7%	15.9%
\$35,000 - \$49,999	15.6%	14.4%	14.4%	14.7%
\$50,000 - \$74,999	17.9%	13.4%	13.4%	13.7%
\$75,000 - \$99,999	10.2%	6.2%	6.2%	7.4%
\$100,000 - \$149,999	7.5%	6.0%	6.0%	5.5%
\$150,000+	<u>2.9%</u>	<u>1.5%</u>	<u>2.6%</u>	<u>2.5%</u>
	100.0%	100.0%	100.0%	100.0%

Data Notes: (1) Percentages may not add due to rounding. (2) Income reported for July 1, 2010 represents annual income for the preceding year, expressed in current (2009) dollars, adjusted for inflation.

Source: ESRI; Real Estate Strategies, Inc./RES Advisors

In 2010, the City had an estimated 3,950 senior households age 55 and older with incomes under \$25,000 per year. Households in this income range would be the target for any new age-restricted buildings constructed using the LIHTC program. However, 2,257 of these households had 2010 incomes below \$15,000, meaning that additional subsidies would be needed to offer affordable rents to these households. The City already has 824 affordable units in senior buildings, most of which house residents age 62 and older. (Public housing and Section 202/Section 8 senior buildings limit eligibility to age 62). With this current level of affordable senior units, there already is the equivalent of one senior housing unit in the City for every five households. In other words, there now are affordable senior housing units in Niagara Falls for 20 percent of senior households age 55 and older. Even though some buildings also house non-elderly disabled persons and vacancy rates at senior buildings are low, the fact that the city has enough affordable senior housing to house one in five elderly households raises concerns about the depth of market for additional housing units to serve seniors.

Therefore, senior housing units that might be developed within the USAN target area would need to attract households from outside of Niagara Falls. Downtown improvements that provide a safe, secure living environment with services and shopping available nearby will be needed to enhance the market prospects for senior housing in the target area. Senior housing might be included in a

later phase of residential development after perceptions of the area have improved and additional services are available.

Student Housing Demand

At the present time, there are no colleges or universities with campuses in downtown Niagara Falls. Interviews indicate that some tenants at The Jefferson are graduate students at Niagara University, but undergraduates typically will find housing options located closer to campus.

Niagara County Community College (NCCC) will be relocating its hospitality-related programs (including its culinary, pastry, wine and beverage, event planning, casino, and tourism-related curricula) from suburban Sanborn to a portion of the former Rainbow Mall on Third Street and Old Falls. These programs currently enroll 330 students, and enrollment may increase by the summer of 2012, when the new facilities are expected to open. At the present time, approximately 10 to 15 percent of students live on campus at NCCC, while others commute from as far away as 25 miles.

After the programs are relocated, it is likely that some students will be interested in living near the new campus. Assuming that the same 10 to 15 percent of students might be interested in student housing, the number would be too small to support development of a student apartment building. However, any students attending classes downtown would add to the demand for rental units in existing properties such as units in the Third Street entertainment district and in any newly constructed rental properties. Students generally are not eligible to live in affordable family housing.

Long term prospects for increasing student housing demand are positive. NCCC's new downtown space is being designed to accommodate up to 1,000 students. Although these students may still not generate sufficient demand for a students-only apartment complex (student apartment buildings tend to have a minimum of 300 beds), NCCC's growing downtown presence will definitely help to re-invigorate demand for rental housing near the new campus.

Housing Programs: Eligibility

Low-Income Housing Tax Credit (LIHTC) Program for Affordable Rental Housing

Most new and substantially-rehabilitated affordable rental housing being built today uses LIHTCs. LIHTC units must be leased to households with incomes below 60 percent of the area median income (AMI), adjusted for household size. LIHTC properties are different from Section 8 or public housing buildings, in that residents pay fixed rents rather than 30 percent of adjusted gross income. Incomes of prospective residents must be deemed sufficient to pay the monthly rent and utility costs, and minimum income levels can be required for tenants occupying LIHTC units. In contrast, public housing and properties with project based Section 8 subsidies have additional subsidies from the federal government and can serve households with extremely low – or no income. Absent these or additional subsidies from other sources, rents at LIHTC properties are too high for households with extremely low incomes.

There are two types of Low-Income Housing Tax Credits – nine percent and four percent credits. The nine percent credits are allocated to states based on population and then are allocated to specific development projects by state housing finance agencies based on a competitive process. The credits are sold to businesses and institutions that can use them to offset income on their federal tax returns. Competition usually is intense for 9 percent LIHTCs. Four percent credits are also allocated by state housing agencies, typically for projects financed with mortgage revenue bonds or with other subsidies to produce rents that are affordable.

Although the federal LIHTC program has been in effect for more than 20 years, it has not been widely used in Niagara County or the City of Niagara Falls other than to provide a source of additional funds for use in renovating or substantially rehabilitating older project-based Section 8 or Section 236 rental properties and to replace public housing units under the HOPE VI program. There are a number of likely reasons for this:

- Because construction costs in Niagara Falls are high and rents are low, additional so-called “gap” financing is required in addition to LIHTCs. Sources of additional financing are limited and are hard to obtain for development projects in markets that are marginal, such as Niagara Falls.
- The recession reduced interest by businesses and institutions – most notably, the appetite of Fannie Mae -- for the large share of LIHTCs it had been purchasing. The result has been difficulty in finding investors to purchase LIHTCs and a decline in the amount of equity provided for each dollar of available tax credits. This problem is compounded in Niagara Falls, where unfavorable population and household growth trends make it more risky to invest in additional affordable housing.
- Probably most important over time is the fact that the maximum LIHTC rents, which are presented in Table 14, are higher than the market rate rents charged at Niagara County's numerous older apartment properties. LIHTC rent maximums are set based on metro-wide incomes, assuming that households pay no more than 30 percent of income on rent and utilities. Moreover, rents at the 60 percent AMI maximum are high in comparison with the Niagara Falls 2010 median income of \$36,316

**Table 14 – Maximum 2010 LIHTC Household Incomes and Rents
Buffalo-Niagara Falls Metropolitan Area**

<u>Household Size</u>	<u>Maximum Household Income</u>	
	<u>50% AMI</u>	<u>60% AMI</u>
1 Person	\$22,300	\$26,760
2 Person	\$25,500	\$30,600
3 Person	\$28,700	\$34,440
4 Person	\$31,850	\$38,220
5 Person	\$34,400	\$41,280
6 Person	\$36,950	\$44,340

<u>Unit Size</u>	<u>Maximum Monthly Gross Rent</u>	
	<u>50% AMI</u>	<u>60% AMI</u>
Studio	\$557.50	\$669.00
1 Bedroom	\$597.50	\$717.00
2 Bedroom	\$717.50	\$861.00
3 Bedroom	\$828.13	\$993.75
4 Bedroom	\$923.75	\$1,108.50

Note: Gross rents include all utilities. Rents are adjusted downward to account for tenant-paid utilities.

Source: NY State Division of Housing and Community Renewal

Homeownership Programs

Strategies used to address revitalization in downtown areas and neighborhoods typically commence with rental housing until such time as perceptions about the area change and households become more comfortable making an investment in a home. This is the situation in downtown Niagara Falls; therefore, RES recommends that initial phases of residential development focus on rental housing.

However, encouraging homeownership appropriately is a long-established goal for the City of Niagara Falls. The “Buffalo Avenue Heritage District Revitalization Strategy” contained a number of initiatives aimed at assisting homeowners with the rehabilitation of structures in the District; initiatives that will help to preserve and improve existing homes should be used to prevent further decline while revitalization initiatives take hold and the housing market strengthens.

Over time, revitalization efforts in the neighborhood north of Niagara Street and the Buffalo Avenue corridor should include opportunities for homeownership. The State of New York offers five programs that assist first time buyers. Each program has a unique target. One program is oriented to veterans and another assists buyers wanting to renovate an existing home. A third program focuses on new energy-efficient homes. The State also has a traditional low interest mortgage program, but this type of program has been less attractive in recent years due to record-low interest rates in the private market.

One program that may be useful in future for-sale projects is the Mortgage Credit Certificate (MCC) program. This program allows borrowers with conventional mortgages to convert 20 percent of annual mortgage interest into a tax credit against federal income tax liability, while still allowing borrowers to deduct the remaining 80 percent of the interest as an itemized tax deduction. The program can be used with FHA-insured or other fixed rate mortgages, but not with low-interest mortgages provided by the State of New York. Borrowers must meet income qualifications and reside in target census tracts; targeted tracts in Niagara Falls include downtown, the Buffalo Avenue Heritage corridor, and the neighborhood north of Niagara Street. In these tracts, the borrower does not have to be a first time buyer. Applications are filed with participating lenders.

Experience with Downtown Housing in Other Upstate New York Cities

In downtown Buffalo multiple developers have successfully undertaken loft rental projects. Over 400 new units have been created in projects as small as four units and as large as 60. Building types include upper floors of small-scale commercial buildings as well as former warehouses, schools, department stores, office buildings, and hotels. An estimated 3,300 people live in Buffalo’s downtown. Loft development in Buffalo has added to the vitality of the downtown and supported the market for retail space and restaurants. Occupancy in loft rentals is high and rents are higher than seen in Niagara Falls. Residents work at downtown offices, institutions, and in the arts district.

Syracuse has over 900 market-rate downtown housing units. Approximately 55 percent of these units are in older high rise rental buildings on the east side of downtown (close to the medical center), but much of the balance has been created through conversion of commercial properties during the last decade. Three conversion projects are currently under construction, with completion anticipated in late 2011 or 2012. Downtown living options are actively marketed with a web site, brochure, and annual walking tour of downtown housing options.

As in Buffalo, most downtown housing in Syracuse is rental. However, a new mixed-use building, Jefferson Clinton Commons) with 18 condominiums over two floors of office space, broke ground in 2008 and completed construction in June 2009. Despite the recession, all but one condominium has been sold. Asking prices ranged from \$279,900 to \$444,900. The units are spacious, with 1,286 to 1,945 square feet. They feature open floor plans, high end Viking appliances, in-unit washers and dryers, whirlpool tubs, balconies, fireplaces, and secure

underground parking. Because of the project's location in an Empire Zone, the buyers enjoy seven-year property tax abatements. Virtually all of the office space is occupied. Management indicated that the project generated considerable traffic from new employees who were taking jobs at the nearby medical center or at the University of Syracuse, but buyers represent a range of ages and employment situations.

CONCLUSIONS AND RECOMMENDATIONS

Advantages and Disadvantages of a Downtown Niagara Falls Location

Households that would consider a location in or near downtown Niagara Falls will look at its positive attributes, which include the following:

- Proximity to jobs with Seneca Gaming Corporation, Memorial Hospital, other private sector employers, and government agencies.
- Reduced commuting costs and time to a job downtown, including the ability to avoid the frustration of dealing with seasonal congestion or weather-related delays.
- Affordable rents and home prices, especially when compared with Erie County's more desirable urban neighborhoods and suburbs.
- Access to Niagara Falls' scenic waterfront and the State Park, which should be especially appealing to young adults who enjoy outdoor recreation.

Downtown also has drawbacks as a residential location, but many of these can be overcome with concerted long-term, targeted efforts on the part of the private and public sectors to make downtown Niagara Falls a more attractive place to live.

- At the present time, downtown lacks amenities that would draw residents. It needs local-serving retail stores, restaurants, banks, health clubs, physicians' offices, and other commercial businesses to meet everyday needs. Young households may be willing to drive to Pine Avenue for groceries or pharmacies; senior citizens may not have this flexibility.
- The area suffers from image problems -- real and perceived criminal activity and a lack of pedestrians during the late fall and winter months (and also during late evening hours at all times of the year).
- The large number of vacant lots suggests that the City is not attracting new development.
- Low home values and rents deter investment in renovation or new construction. Significant subsidies will be needed for projects to "pencil out."
- Real estate tax rates are higher in the City than in the suburbs, and multifamily rentals are not eligible for lower homestead tax rates available to owners of single-family homes and duplexes.
- Public schools are seen as a problem by households with children. The downtown lacks private school alternatives.

Of late, public sector development incentives have focused on commercial projects, not housing. USAN and the City of Niagara Falls have tools available to encourage renovation of existing housing and construction of new units. In the short run, fiscal constraints may limit the City's ability to award tax abatements or rehabilitation grants. Even so, they should be considered as a way to jump-start residential activity.

Unlike downtown Buffalo or Syracuse, downtown Niagara Falls does not have a substantial number of older/historic buildings suitable for conversion to loft rental apartments. In other areas that lack housing inventory and need revitalization, loft conversions have strengthened demand that has eventually supported new construction. Unfortunately, Niagara Falls demolished most of the stock of older office, industrial, and warehouse buildings in the downtown decades ago under urban renewal programs; a stock of older downtown buildings suitable for conversion is not available for this type of activity. Nevertheless, the public sector can take steps to encourage the renovation and adaptive re-use of older structures that are still standing.

Action Strategies

Adaptive Re-Use

Although there are few older downtown buildings that would be suitable for conversion to housing, possible opportunities include:

- The former Niagara Hotel, although its re-use as a hotel may make more sense than renovating it for apartments. RES was unable to inspect the building.
- The upper floors of the Power City building on the southwest corner of Third and Old Falls Streets. The exterior of this building appears to be in good condition and this is an important location near the Casino, the new NCCC campus, and the State Park. A ground floor retail user should be recruited for the first floor space.

Renovation of Existing Housing

The neighborhood north of Niagara Street should be a high priority for rehabilitation and selected demolition/reconstruction. However, the approach must be strategic. RES recommends starting on the north side of Niagara Street between Fourth and Eighth Streets, and also moving north from Niagara Street along Fourth Street. A scattershot approach will not create a critical mass of sound housing and will not improve conditions in a way that will encourage more private investment. Some homes will be too deteriorated to justify renovation and will have to be taken down. Infill development to replace these structures must be in a consistent architectural style to blend with older homes that are renovated.

There are added benefits to starting at Niagara and Fourth Streets. First, improvements that are made will be very visible because of the volume of traffic along Niagara Street and the access to the casino parking garage from that street. Second, a focus on Niagara Street improvements should benefit revitalization projects that have been completed and are underway along nearby Third Street.

The neighborhood needs an "identity" that City residents will remember and associate with renovation efforts. None of the interview respondents had a name for the area, other than "north of Niagara Street."

The costs associated with renovations of residential structures will be high, and there is likely to be intense competition for funding. The City is already committed to housing rehabilitation programs in three other target neighborhoods (LaSalle, DeVeaux, and Echota) where deterioration is not as widespread, and where the housing stock is newer. As a result, per-unit costs in these three areas are not as high as is anticipated in the neighborhood north of Niagara Street.

Housing improvements in the area north of Niagara Street are likely to benefit revitalization activity downtown because of the neighborhood's proximity to the tourist area and its visibility. The non-profit Center City Neighborhood Development Corporation (CCNDC) covers a portion of the neighborhood north of Niagara Street between Fourth and Eighth Streets, but its total territory is larger and it has not undertaken much work in this neighborhood.

The City's housing rehabilitation resource constraints are apparent in its 2011 Action Plan for Community Development Block Grant (CDBG) and HOME funds. The City expects to renovate only 15 rental units and 65 homeownership units. These totals include the planned activities of non-profits such as CCNDC and Neighborhood Housing Services. Without careful targeting, there is likely to be little impact from this type of limited program. RES recommends action by USAN and City officials to investigate ways to leverage available resources and access other funding programs that may be available. For example, local funds (from the City, USAN, or other sources) might be used as the local match for a State of New York or federal program, or used to capitalize a rehabilitation loan fund administered by one or more banks. RES recommends discussions with foundations to inquire about funding priorities.

New Workforce Housing

New workforce rental units would be an attractive addition to the Niagara Falls housing market and might help to jump-start other private investments. This type of development would add additional 24/7, year-round population to help support local stores, services, and eateries. Constructing new workforce housing in downtown Niagara Falls will require use of LIHTCs, as well as additional subsidies for so-called "gap" financing because rents are too low for residential projects to be financially feasible. Further, a pioneering workforce housing development in Niagara Falls will need to be very competitive for funding, especially in today's more constrained environment for residential development.

RES recommends that the majority of housing units be targeted to be affordable to households with incomes less than 60 percent of AMI. If at all possible, additional subsidies should be made available so that rents could be affordable to households with incomes at 40 to 50 percent of AMI, which is more in line with entry-level salaries of employees working downtown. A component (20 to 25 percent of the units) should have market rents so they can be offered to prospective tenants without regard to income. Quality mixed-income workforce housing developments have performed very well in inner city neighborhoods of other northeastern and midwestern cities. These properties are constructed and maintained well and have the modern features and amenities seen in newer market-rate complexes. Thus, for example, units should have fully equipped kitchens, baths with vanities, in-unit washer/dryer, high speed Internet and cable, window treatments, carpet, and patio/balcony. Site amenities should include a community room, business center, recreational facilities such as a fitness center, and secure off-street parking. Project design must incorporate features addressing security concerns about living downtown; units should have security features and alarms. Given the high cost of utilities in Niagara Falls, buildings and appliances must be energy-efficient.

Based on our review of the existing rental market and utility allowances for Niagara Falls, a new one bedroom unit offered at the maximum gross rent at the 60 percent of AMI level, which is \$717 per month, is too expensive in this market. The same holds true for a two bedroom unit at the 60 percent level, for which the maximum gross rent is \$861 per month. As indicated, it will be necessary to find additional subsidies to produce a financially feasible project. Land write-downs and an allocation of casino-related funding might help to fill the gap. Another source would be funds provided through the Federal Home Loan Bank of New York, which can provide up to \$20,000 per unit for rental properties when at least 20 percent of the units are targeted to households earning less than 50 percent of AMI. Funding sources used in other communities have included CDBG and HOME funding, money from a variety of state housing programs and trust funds, and New Markets Tax Credits when projects include non-residential components. Use of Section 8 Project Based subsidies is not recommended; the new residential development must be positioned in the market as a workforce housing development with market-rate units.

Appropriate locations would include the blocks fronting on the north side of Niagara Street between Fourth and Eighth Streets (which would require demolition), and other vacant or underutilized lots in the downtown core. RES recommends including the Seneca Gaming

Corporation as an active participant in any workforce housing construction because its employees will be the most important source of demand in the short run.

An initial workforce housing development must be large enough to have a real and visible impact in downtown Niagara Falls. While the precise number of new units will depend, in part, on the physical attributes of the site, a first phase of at least 100 units is recommended to create a new neighborhood. Table 15 presents recommendations for a project of 100 units, including recommendations addressing unit mix and rents expressed in 2010 dollars. Assuming that households pay about 35 percent of income for rent and utilities, a household would need to have income of almost \$23,000 to afford the one bedroom rents shown. The maximum income at 60 percent of AMI would be \$39,750 for a unit with three bedrooms.

Table 15 – Unit Mix and Rents, 100-Unit Workforce Housing Development (2010 Dollars)

<u>Unit Type</u>		<u>Recommended Net Rents <60% AMI</u>	<u>Utility Allowance</u>	<u>Gross Rents <60% of AMI</u>	<u>Minimum Income Needed</u>	<u>Maximum Income at 60% of AMI</u>
1 Bedroom/1 Bath	Flat	\$535	\$135	\$670	\$22,971	\$28,710
2 Bedroom/2 Bath	Flat	\$625	\$168	\$793	\$27,189	\$34,440
2 Bedroom/1.5 Bath	Townhouse	\$625	\$168	\$793	\$27,189	\$34,440
3 Bedroom/1.5 Bath	Townhouse	\$720	\$205	\$925	\$31,714	\$39,750

<u>Unit Type</u>		<u>Rents for Market-Rate Units</u>
1 Bedroom/1 Bath	Flat	\$650-700
2 Bedroom/2 Bath	Flat	\$775-800
2 Bedroom/1.5 Bath	Townhouse	\$850-900
3 Bedroom/1.5 Bath	Townhouse	\$950-1,025

Notes: (1) Net rents include only trash collection. (2) Utility allowances are amounts effective 1/1/2010 and assume gas heat and hot water and electric ranges. (3) Minimum income assumes households spend 35 percent of income for gross rent. (4) Maximum income assumes an average of 1.5 persons per bedroom.

Source: Real Estate Strategies, Inc./RES Advisors

Senior Housing

RES does not recommend development of new senior housing in downtown Niagara Falls in the short term. As discussed earlier, Niagara Falls and nearby suburbs already have a substantial inventory of affordable senior housing, virtually all of it with deep project-based Section 8 or public housing subsidies. The existing inventory of senior units already penetrates a high percentage of City households over age 55 earning less than \$25,000.

A majority of seniors are homeowners, and current market conditions will make it difficult to sell existing homes at reasonable prices. Most important, seniors who are concerned about crime and who want to be close to shopping and services will not find the downtown to be a desirable location. Once there are more amenities in the area, it may be possible to change this perception.

APPENDICES

Appendix A

Market Rate Rental Apartments Outside Downtown Niagara Falls and in Nearby Suburbs

Name/Address of Property	Number of Units	Age	Unit Type	Unit Sizes (SF)	Monthly Rents	Utilities Included	Occupancy (%)	Comments
Riverpointe Townhomes 4812 University Court Niagara Falls (716) 284-2367	106	1962	2 BR TH	880	\$625	Water, cable	92%	Furnished; oriented to Niagara U. students; some corporate rentals.
Historical Square 920 Mohawk St. Lewiston (716) 754-8151	106	1971	2/1 2/2 3/2 TH	950 1,134 1,296	\$730 \$900 \$985	Gas, water and sewer	Would not disclose	Clubhouse, pool, patio/ balcony. Some garages.
Ridgeview at Lewiston 920 Mohawk St. Lewiston (716) 754-8151	164	Not known	1/1 2/1 2/1.5	728 960 1,100	\$570 \$710 \$860	Water and sewer	Would not disclose	Clubhouse, pool, patio/ balcony. Some garages.
North Bridge Court 67th St. & Buffalo Ave. Niagara Falls	48	25-30 years	1/1 2/1	625 725	\$550 \$600	Heat, hot & cold water, sewer	Would not disclose	River views. No recreation amenities. Extra storage.
Silver Lake 8235 Buffalo Ave. Niagara Falls (716) 283-2800	60	25-30 years	1/1 2/1	440-695 740	\$500 \$625	Heat & hot water	97%	Recently renovated. Extra storage units. No recreation facilities.
Forestview Senior Village 3959 Forest Parkway Wheatfield 716-693-8439	92	<10 years	1/1 2/2	807 1,107	\$1,050 \$1,195	Heat, water, sewer, cable, phone	Would not divulge	Patio or balcony, comm. room, billiards, fitness center, game rm, theater
Renaissance Place 10 Arielle Court Williamsville (Erie Co./suburban Buffalo) (716) 689-7983	156	1998	1/1 1/1 w/gar. 2/2 2/2 w/gar. 3/2 3/2 w/gar.	783-832 832 1,003-1,187 1,042-1,188 1,344 1,284	\$1,085-\$1,133 \$1,278 \$1,273-\$1,430 \$1,457-\$1,578 \$1,613 \$1,745	Cable, internet, water & sewer	100%	2-story. Clubhouse, pool, playground, exercise, in-unit washer & dryer.
Autumn Creek 5 Autumn Creek Lane East Amherst (Erie Co./suburban Buffalo) (716) 689-3300 (877) 688-3395 (585) 454-3915	228	NA	1/1 2/1.5 2/2	900-950 1,090-1,190 1,240-1,290	\$1,047-\$1,087 \$1,185-\$1,207 \$1,285-\$1,323	Cable, internet, water & sewer	NA	2-story. Clubhouse, pool, playground, exercise, in-unit washer & dryer. Separate garages & storage available (\$). Private entrances, some units w/fireplaces.
Country Club Manor 25 Northwood Williamsville (Erie Co./suburban Buffalo) (716) 632-0541	220	NA	1/1 1/1 2/1 2/2	650 720 890 950	\$800+ \$840+ \$925+ \$975+	Water	Would not disclose	2-story. Clubhouse, pool, fitness center, community room. In-unit washer & dryer. Ceiling fans. Stor- age areas. Garages available. Fireplaces on 2nd floor.

Source: Interviews by Real Estate Strategies, Inc./RES Advisors, Fall 2010



Location of Selected Market-Rate Rentals

Appendix B Affordable Family Rental Complexes in Niagara Falls and Nearby Suburbs								
Name/Address of Property	Number of Units	Subsidy Type	Year Built	Unit Type	Monthly Rents	Utilities Included	Occupancy (%) & Wait List	Comments
Monteagle Ridge Estates 4600 Hyde Park Blvd. Niagara Falls 716-285-2454	150	Sec. 8	unknown	1 BR/1 2 BR/1 2 BR/1.5 TH 3 BR/1.5 TH 4 BR/1.5 TH	30% of income	None	100% 6 mos - 1 yr. wait list	Playground. All electric. Near Niagara U.
Cornerstone Village 2990 9th St. Niagara Falls 716-284-9993	40	LIHTC, Trust Fund	2008	1 BR/1 2 BR/1.5 3 BR/1.5 4 BR/1.5 5 BR	\$390 \$442 \$494 \$546 \$610	None	Wait list for all unit types	Townhouse style; residents have a yard and front porch. 198 Sec. 236 units were demolished prior to construction (Unity Park II). Max. incomes at 60% of AMI.
Apple Walk 1 Apple Walk Niagara Falls 716-284-9993 (same management as Cornerstone Village; different ownership)	204	Sec. 236, LIHTC, Sec. 8 (30 units)	1972	Studio 1 BR/1 2 BR/1 2 BR/1.5 TH 3 BR/1.5 TH 4 BR/1.5 TH	\$287-\$349 \$360-\$448 \$453-\$556 \$546-\$669 \$562-\$694 \$626-\$774	All	Wait list for all unit types; not full	Flats and townhouses. Low end of rent range is "basic" rent. Top end is "market" rent. Sec. 236 property renovated w/LIHTC. Former Unity Park I. Max. incomes at 60% of AMI.
Colt Block 2119 Main St. Niagara Falls 716-282-8614	71	LIHTC Sec. 8	2004 mod rehab 5 bldgs; scattered sites	Studio 1 BR/1 2 BR/1	30% of income	Heat and water	100% 2-3 yr. wait	Rehab. Center City Neighborhood Dev't. Corp. project.
Center Court 1700 Centre Ave. Niagara Falls 716-285-4440	215 rental	HOPE VI 4% LIHTC	Being redeveloped	1 BR/1 2 BR/1 3 BR/1.5 4 BR/2 Duplex style	\$422 \$502 \$576 \$639	N/A	N/A Project is being redeveloped	Redevelopment of 134-unit 1943 public housing. 246 rental units planned; 115 in 1st phase.
Total	680							

Source: Interviews by Real Estate Strategies, Inc/RES Advisors., Fall 2010.

Location of Affordable Family Rentals



**Appendix C
Affordable Senior Rental Apartments in Niagara Falls and Nearby Suburbs**

Name/Address of Property	Number of Units	Subsidy Type	Year Built	Unit Type	Monthly Rents	Occupancy (%) & Wait List
<u>Inside Niagara Falls City Limits</u>						
Spallino Towers* 720 10th Street Niagara Falls 716-285-5505	196 High rise	Public housing	1970	Efficiency 1 BR/1	30% of Income	Long wait list
Wrobel Towers 800 Niagara Avenue Niagara Falls 716-284-9129	247 High rise	Public housing	1974	1 BR/1	30% of Income	Long wait list
Niagara Towers 901 Cedar Avenue Niagara Falls 716-284-4488	200 High rise	Section 8 Age 62+ LIHTC	1979	1 BR/1	30% of Income	95%; approx. 20 people
Presti Apartments Ferry Avenue Niagara Falls 716-285-7778	39 Low rise	Housing Trust Fund	1989	1 BR/1	\$284-\$339	A few units being renovated; short wait list
Estella Apartments 942 Niagara Avenue Niagara Falls 716-284-1467	20	Sec. 8	Ren. In 1981	1 BR/1 2 BR/2		95% 2 on wait list
Yorkshire Apartments 636 9th St. Niagara Falls 716-284-2367	42	Sec. 8	1950s	1 BR/1 2 BR/1 3 BR/1	30% of income	100% "couple of names"
Morello Apartments 402 95th St. Niagara Falls 716-236-0498	80	Sec. 8 LIHTC	1999	1 BR/1 2 BR/1	30% of income	100% 100 names
Subtotal, Inside City Limits	824					

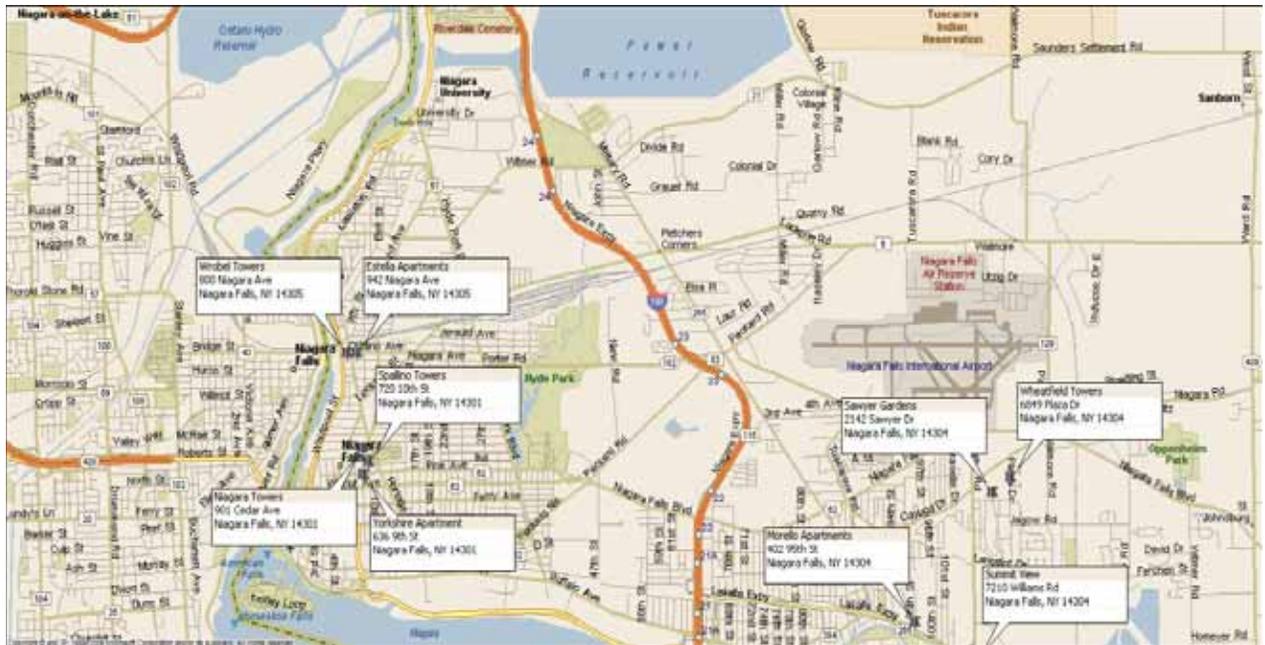
*Also serves non-elderly disabled households.

Source: Interviews by Real Estate Strategies, Inc/RES Advisors., Fall 2010.

Name/Address of Property	Number of Units	Subsidy Type	Year Built	Unit Type	Monthly Rents	Occupancy (%) & Wait List
Outside City Limits						
Sawyer Gardens 2132 Sawyer Dr. Niagara Falls (Wheatfield) 716-298-3529	58 Low rise	Sec.8 202	NA	1 BR/1	30% of Income	NA
Wheatfield Towers 6849 Plaza Dr. Niagara Falls (outside City) 716-731-4600	100 High rise	Sec. 8	1980	1 BR/1	30% of income	100% 1 year
Summit View 7210 Williams Rd. Niagara Falls (outside City) 716-283-8439	77 Low rise	Sec. 8 LIHTC	2006	1 BR/1 2 BR/1	30% of Income	100% 1 year to 1.5 years
Lewiston Villa 930 Upper Mountain Rd. Lewiston 716-298-4966	24 Low rise	Sec.8/ 202	NA	1 BR/1	30% of Income	NA
Subtotal, Outside City	259					
Total Units	1,083					

Source: Interviews by Real Estate Strategies, Inc/RES Advisors., Fall 2010.

Location of Affordable Senior Apartments





ECONOMIC AND MARKET ASSESSMENT: NIAGARA FALLS, NEW YORK



SUBMITTED TO:

Christopher Schoepflin
USA Niagara Development Corporation
222 First Street, 7th Floor
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PREPARED BY:

HVS Consulting and Valuation Services
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RAS Associates

Date: June 15, 2011

Funded in part through a generous grant from:

nationalgrid

The power of action.™

May 31, 2011

Mr. Christopher Schoepflin
USA Niagara Development Corporation
222 First Street, 7th Floor
Niagara Falls, NY 14303
716-284-2556
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Dear Mr. Schoepflin:

We are pleased to submit the enclosed technical memorandum pertaining to the potential for the development of new tourism and entertainment attractions in Niagara Falls, New York.

Sincerely,

A handwritten signature in black ink that reads "Hans Detlefsen". The signature is written in a cursive, flowing style.

Hans Detlefsen
Managing Director
HVS Consulting and Valuation Services

Technical Memorandum #4

Attractions Analysis

Technical Memorandum #4

Attractions Analysis

Niagara Falls, New York

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Date: May 31, 2011

Funded in part through a generous grant from:

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Technical Memorandum #4

Introduction

One of the most common complaints of visitors to Niagara Falls, New York is the lack of things to do in the downtown area. This memorandum evaluates potential development and programming strategies that could address this criticism. In fact, an extensive inventory of attractions and activities currently exist in the Niagara Falls, New York area; however, the particular mix and concentration of attractions have not led to a comparable level of spending and overnight tourism compared to Niagara Falls, Ontario. Two of the largest attractions in the State of New York (i.e. the Niagara Falls State Park and the Seneca Niagara Casino) are located in downtown Niagara Falls, New York and each attracts approximately 8.0 million visitors annually. Although a portion of these visitors overlap, there is clearly an existing pool of demand potential that could be targeted by other attractions if they were properly positioned, strategically located, and professionally marketed to existing resident and visitor segments.

This technical memorandum aims to provide an overview of the attractions market in Niagara Falls, New York as well as strategic recommendations for future development priorities. It is the sixth memorandum in a series that focuses on various economic trends, statistical characteristics, and development strategies pertaining to the Niagara Falls, New York downtown market area.

Overview of Previous Studies

Numerous past studies have developed important findings about the demand potential for attractions in downtown Niagara Falls, New York. In general, the studies conclude that millions of overnight and daytrip visitors travel to the area each year, mainly to visit Niagara Falls, go gambling or shopping, and to visit friends and relatives. We highlight a few key findings from two such studies in the following discussion.

In 2004, USAN sponsored a report by Economics Research Associates (ERA) entitled *Project Report: Market Analysis for Tourist Attractions*. This research concluded that visitation to Niagara Falls, New York consisted of more than 9.3 million visitors annually. This figure includes: 5.0 million resident and out-of-town visitors to the casino; 2.4 million “traditional tourism” visitors; and 1.9 million visitors who were staying overnight in Niagara Falls, Ontario, but who took a “side trip” to Niagara Falls, New York. According to internal visitor estimates, the Niagara Falls State Park and the Seneca Niagara Casino both estimate total annual visitation of approximately 8.0 million visitors, according to more recent interviews conducted by HVS in December 2010; it is likely that significant overlap occurs between these two sets of attendees, so the two attendance estimates are not additive. Although the exact quantity of visitor demand to Niagara Falls, New York may be disputable, the fact that these two attractions are among the state’s largest draws is undisputable. These residents and visitors represent a large reservoir of untapped potential for additional tourism attractions or activities in downtown Niagara Falls, New York.

In 2009, the Niagara Tourism and Convention Corporation released a report by Longwoods Travel International (Longwoods) entitled *2008 Visitor Report for Niagara Falls, NY*. This report estimates that approximately 2.4 million visitors (from at least 50 miles away) stay overnight annually in Niagara Falls, New York. The study also estimates that an additional 3.1 million visitors (from at least 50 miles away) come to Niagara Falls, New York for daytrips each year. The study offers a profile of these visitors showing average income, age, education levels, and other characteristics relative to a typical U.S. traveler. One of the most important findings is that the average overnight visitor coming to Niagara Falls, New York is away from home for approximately 4.0 nights; however, on average, these visitors spend only 1.1 nights in Niagara Falls, New York. Presumably, visitors are spending most of their time in Niagara Falls, Ontario or in other destinations en route to the Niagara Falls area. The previously cited

criticism that there are limited things to do in downtown Niagara Falls, New York, is consistent with this finding that most visitors to the area are spending a small fraction of their time in Niagara Falls, New York.

Trade Area Definitions

The trade areas for major attractions, sports facilities, and entertainment venues often consist of a mixture of resident and visitor markets. For the purpose of this memorandum, we define an attraction's trade area as the geographical area from which a majority of demand originates. As such, different attractions can have different trade areas.

In general, attractions that draw participants for a longer or more expensive experience tend to have larger trade areas. For example, attractions, such as movie theaters that have an average experience lasting approximately two hours and costing approximately \$10 per person may have a trade area of one-to-ten miles, depending on its advantages and disadvantages relative to competitors. On the other hand, a longer experience or a more expensive attraction, such as a week-long packaged vacation to Disneyland, may have a national or international trade area.

Moreover, attractions that represent the highest concentration, or cluster, of a type of activity in a large geographical area also generally have larger trade areas than otherwise might exist based on the average length of stay or expenditure by participants. So, a concentration of restaurants and bars which, together, make up a marketable district, will often benefit from a larger trade area than any single restaurant or bar would have if it were not part of the defined district. Examples include the Broad Ripple area of Indianapolis, the Old Market district in Omaha, the Power & Light District of Kansas City, Fourth Street Live in Louisville, San Antonio's Riverwalk district, and the historic Old Mesilla district in Las Cruces, New Mexico. Each of these districts, primarily defined by a high-density concentration of restaurants and bars, attracts patrons from each market's broader metropolitan area. Moreover, these districts are among the most popular attractions/activities experienced by out-of-town tourists to each respective market. Restaurants and bars are not the only types of business that can experience the benefits of concentration by forming a district. Jewelry stores, antique vendors, sporting goods stores, nightclubs, art galleries, and many other types of businesses have demonstrated the potential power of critical mass in various and different market settings.

Currently, according to the most recent Longwoods study, Niagara Falls, New York has a primary trade area that includes a multi-state region. That is, the majority of visitors originate from a region that includes four or five states. The top five states of origin for visitors coming to Niagara Falls, New York include New York, Pennsylvania, New Jersey, Texas, and Ohio. According to the Longwoods study, these five states account for approximately 64% of overnight visitors to Niagara Falls, New York.

The previously cited study by ERA defined "resident" and "tourist" market segments as a potential means of defining a trade area for attractions in Niagara Falls, New York. The U.S. Travel Association defines a visitor as a person who travels 50 miles or more, one way, away from home or including one or more nights away from home. This definition is consistent with ERA's definition of the "tourist" market segment, while visitors residing within 50 miles are considered part of the resident market. Because the focus of this technical memorandum is the downtown area of Niagara Falls, New York, these "resident" and "tourist" market segments can be further segmented into Canadian versus U.S. sub-segments.

Since the focus of this technical memorandum is not one particular type of attraction, but rather a broader evaluation of several potential attraction types, we provide a basic presentation of the likely trade areas for a range of attraction types. The following table summarizes the likely target market trade areas or market segments for several potential attractions that may be considered for future development in Niagara Falls, New York.

Target Market Trade Areas						
Attraction Category	Visitor Overnight		Visitor Daytrip		Resident	
	Existing	Induced	Existing	Induced	Existing	Induced
Amateur Sports Complex		⊙		⊙		
Amusement Park	⊙			⊙		
Aquarium	⊙					
Arena (sports and entertainment)	⊙			⊙		⊙
Casino Expansion		⊙		⊙		⊙
Convention Center		⊙				
Dining/Entertainment District	⊙		⊙		⊙	⊙
IMAX Theater	⊙					⊙
Interactive Museum	⊙			⊙		
Movie Theater	⊙					⊙
Niagara Experience Center	⊙			⊙		
Niagara Falls State Park Grand Reopen	⊙	⊙	⊙	⊙		⊙
Outdoor Amphitheater				⊙		⊙
Performing Arts Venue						⊙
Shopping Center	⊙	⊙	⊙	⊙		
Tourist Ride/Tour	⊙		⊙	⊙		
Waterpark		⊙				
Zoo				⊙		⊙

The target markets for different potential attractions are likely to vary substantially. For example, while an arena or interactive museum may target existing overnight visitors as a primary demand segment, a new convention center or amateur sports complex used to host regional tournaments would target narrow niches of attendees who currently do not visit or reside in the Niagara Falls area. Many attractions would target a combination of overnight visitors, daytrip visitors, and residents living within 50 miles of downtown Niagara Falls. Because of the different target market strategies employed by each type of attraction, the feasibility studies developed for these different attractions may have very different approaches and methodologies. Although conducting such feasibility studies is beyond the scope of this consulting engagement, the relative strengths and weaknesses of each broad category of demand potential listed in the preceding table may provide preliminary guidance related to the potential feasibility of several types of attractions.

In general, most attractions like the ones identified in the preceding table are not financially feasible with traditional private financing. These types of attractions often require a major philanthropic sponsor or a public-private partnership of some sort. To the extent that any public sector entity may consider subsidizing one or more attraction to greater or lesser degrees, there are likely to be several public policy goals or objectives to consider. In our experience, these goals and objectives can vary and are often unique to a given community. Therefore, we have developed a changeable scoring matrix that the client team can alter to reflect the proper weighting of its own policy priorities.

The following table summarizes several potential policy priorities that may be considered as part of any potential public investment in the development of a new, major attraction for downtown Niagara Falls, New York. One possible scoring system is also presented, whereby each attraction type is given a score for each of several policy priorities. In this example, a high score of “4” indicates the best possible match with the public sector’s objectives while a low score of “1” indicates a poor match with the public sector’s objectives.

Trade Area Rankings

Attraction Category	Downtown Impact	Economic Impact	More		Public Cost Initial	Public Cost Ongoing	Total Score
			Things to Do	Market Demand			
Dining/Entertainment District	4	4	4	4	2	4	22
Casino Expansion	3	3	3	3	4	4	20
Amateur Sports Complex	4	4	1	3	2	3	17
State Park Grand Reopen	2	4	3	3	1	4	17
Arena	3	2	3	3	2	3	16
Movie Theater	3	1	2	3	3	4	16
Shopping Center	3	3	3	1	2	4	16
Tourist Ride/Tour	2	1	2	3	4	4	16
Waterpark	2	3	2	3	2	4	16
Amusement Park	1	3	2	2	2	4	14
Outdoor Amphitheater	2	1	2	3	3	3	14
Aquarium	2	2	2	2	2	3	13
IMAX Theater	2	1	2	2	2	4	13
Zoo	1	2	2	3	2	3	13
Convention Center	3	4	1	2	1	1	12
Performing Arts Venue	3	2	2	2	2	1	12
Interactive Museum	2	2	2	2	1	1	10
Niagara Experience Center	2	2	2	2	1	1	10

This sort of scoring matrix is intended to be used as a tool for evaluating different development opportunities and proposals according to how well they score on a range of potential policy goals. However, the client team may wish to develop its own series of policy goals to score within a scoring matrix of this sort. As such, the preceding scores are not intended to be a final conclusion or recommendation about which types of attractions merit the greatest consideration. For example, although the development of a downtown dining and entertainment district may score very high on its potential impact and market demand, it may not be possible to assemble the parcels necessary to create a successful district of this type in Niagara Falls, New York. Similarly, while an interactive museum or the Niagara Experience Center may score relatively lower on its potential impact and market demand, such a development may have broad community support and may score high on other factors not listed, such as its ability to foster learning and education about Niagara Falls.

Inventory of Entertainment/Attractions

Despite perceptions and visitor comments about the lack of things to do in Niagara Falls, New York, this area actually features an extensive array of existing attractions and activities that are successful and popular among guests who have experienced them. The broader downtown area of Niagara Falls, New York currently features the following range of attractions:

1. Niagara Falls State Park
2. American Falls
3. Bridal Veil Falls
4. Cave of the Winds
5. Maid of the Mist
6. Niagara Gorge Discovery Center

7. Daredevil Museum
8. Devil's Hole State Park
9. Haunted House of Wax
10. Niagara Adventure Theater
11. Aquarium of Niagara
12. Hiking / Biking Trails
13. Goat Island
14. Herschell Carrousel Factory Museum
15. Rainbow Air Helicopter Tours
16. Old Falls Street (festival programming)

In addition to these attractions in and near the downtown area, numerous regional attractions also include the following:

- Niagara Wine Trail
- Fashion Outlets of Niagara
- Old Fort Niagara
- Pine Street Restaurant District
- Golf Courses (Hyde Park; Seneca Hickory Stick; Newfane Pro-Am)
- Agri-Tourism (e.g. Becker Farms)
- Fishing
- Bird watching
- Boating
- Martin's Fantasy Island
- Darien Lake Theme Park

This extensive range of attractions might appear to contradict data from visitor surveys and input from our interviews that there is not much to do in Niagara Falls, New York after visiting the falls. Despite this array of attractions, however, there are several possible explanations for why visitor perceptions continue to reflect the previously cited comment.

Firstly, perhaps many of these attractions do not appeal to a broad cross-section of visitors. Restaurants, bars, and retail shops would appeal to a broad range of visitors as a vast majority of visitors eat, drink, and shop. Although demand potential for retail may be very limited downtown, there is strong demand for

eating and drinking places. As such, one of our recommendations is to focus on attracting more bars and restaurants downtown. If done in a dense district, these businesses can form a type of visitor attraction in the form of a dining and entertainment district.

Secondly, perhaps many of the existing attractions are not proximately located to each other, thereby missing an opportunity to create a high-energy district of visitor activities and attractions. Sometimes the perception of having many activities and attractions can be enhanced by concentrating these options into a district that can easily be marketed to visitors. Therefore, we recommend that any new attractions that receive public incentives should be located in a concentrated district of the downtown area that can help to define a more active district between the two anchor attractions – the falls/park and the casino – that already attract millions of visitors each year.

Thirdly, taking visitor survey comments at face value, perhaps there simply are not enough attractions to keep visitors occupied. Although this seems implausible, it may hold merit when considered in the regional competitive context in which Niagara Falls, New York is often compared to Niagara Falls, Ontario. Therefore, we recommend targeting a small number of attraction projects over the next few years for development in the downtown area. One or two well-positioned developments could help to change the image of the downtown area and could be cornerstones for a new dining and entertainment district which would become a featured destination for travelers coming to the region. We recommend prioritizing one or more such attraction projects and then developing a clear package of potential public incentives that could be used as tools to make a project financeable. Once these potential public incentives are defined, they will constitute one of the most important messages and communication items that developers and investors need to be aware of before deciding to commit private resources to such projects.

Despite the inability to market themselves as a concentrated visitor district, existing attractions and tourism officials have done a good job trying to create linkages in other ways. For examples, multi-day packages and visitor passes are available to visitors. Moreover, cross-marketing among attractions occurs on numerous websites and through joint marketing ventures.

Analysis of Market Potential

The downtown area of Niagara Falls, New York currently features several popular attractions that augment the experience of millions of daytrip and overnight visitors who come to the falls, the state park, or the casino. The existing pool of overnight visitors, daytrip visitors, and residents combined with new potential visitors that could be induced to visit the area because of a new attraction represent major potential demand sources for any new attraction in the downtown area. We highlight the potential strengths, weaknesses, opportunities, and threats that would likely impact any new attraction built downtown.

Strengths

There are already 1.7 million overnight person days being generated in Niagara Falls, New York annually. There are an additional 4.8 million overnight person days being generated in Niagara Falls, Ontario annually. These guests represent a large pool of potential demand and they are easy to target since the majority are staying overnight in area hotels. The Niagara Falls State Park and the Seneca Niagara Casino both estimate annual attendance of at least 8.0 million guests annually. Although these attendees partially overlap and even though many are daytrip visitors, these magnets represent long-term demand generators for huge volumes of potential customers who are easy to target. In short, two of the most popular attractions in the State of New York are located in downtown Niagara Falls. Together, they represent a very large source of potential customers for almost any type of attraction located proximate to both existing attractions.

Weaknesses

The downtown area's current image as unsafe and unexciting is perhaps one of the biggest weaknesses deterring development currently. The lack of coordination among landowners and developers is another

weakness compared to other communities that have been able to create well-defined districts for tourists to enjoy. The seasonality of demand is a clear weakness currently.

Opportunities

Each weakness represents an opportunity. We recommend that public resources committed to new attractions or other downtown tourism development efforts should be considered in the context of whether they improve the image of the downtown, improve the connectivity and coordination of different land uses downtown, and/or extend the tourism season. The area's seasonality represents an additional opportunity to extend the high-season through targeted sales and programming efforts. For example, the appointment of a programming task force could be one way to identify 10 weeks throughout the year that have historically been low-season or shoulder-season weeks. The task force could be asked to create festival or other programming activities, with the goal of maximizing overnight visitation, during these 10 weeks. The commitment of financial resources and commitment from local hoteliers to provide room blocks are likely to be critical to such a task force's success. The task force's success should be measured by comparing the number of induced overnight room nights sold and induced spending versus the cost of all resources spent by the task force.

Threats

There are several important threats that could continue or expand weaknesses while limiting the community's ability to take advantage of opportunities. One potential threat is the failure of any new project downtown. If investors witness a new development that fails to meet financial expectations, then such a project could scare away potential developers and investors in the future. A second potential threat is the lack of cooperation or motivation of existing land owners. The creation of a concentrated district of some sort (e.g. sports, entertainment, dining, shopping, or a combination of these) is a central facet of most successful downtown tourism destinations. If land owners do not participate in a coordinated vision of downtown, or if they decide to hold land for several years without developing it, such behavior could severely threaten the ability to create a successful tourism district downtown. A related threat is the need to proceed incrementally with development projects downtown. If the development of single projects proceed incrementally and are not able to be located together quickly enough in such a way that a high-traffic tourist district can be created, then these projects may be less likely to achieve their market potential, which would be maximized if a well-defined and highly-concentrated tourism district could be created and marketed to visitors.

Strategic Conclusions

We recommend that key stakeholders and policymakers with the ability to make decisions about public incentives develop a coordinated approach to creating a downtown tourism district. We recommend clearly defining goals and objectives for any new downtown attraction. Then we recommend focusing on one or more high-priority attraction development projects to anchor the proposed tourism district.

Furthermore, we recommend obtaining control of key sites in the downtown area that would allow for the creation of a highly-concentrated visitor district. We recommend the consideration of zoning and tax changes to encourage existing owners to participate in a shared vision for the downtown tourism district. If necessary, we recommend that eminent domain should be considered when existing land owners are not willing to, or capable of, sharing in this vision.

Finally, we recommend a targeted communication strategy to the development and investment community that clearly articulates: (1) the public-sector's goals and objectives for any new attraction project; (2) the type or category of incentives and tools that will be considered if a project meets these goals and objectives; and (3) the magnitude of potential incentives in each category defined.

EXHIBITS

Exhibit 1

Super Regional & Regional Malls, Buffalo-Niagara, NY and Niagara-St.Catharines, Ontario

Center	Location	City	Zip Code	US / Canada	Miles from Niagara Falls, NY (1)	Type	Retail GLA	No. of Stores
New York								
Boulevard Mall	730 Alberta Dr	Amherst	14226	US	16	Super-Regional	1,500,000+	100+
Walden Galleria	1 Walden Galleria	Buffalo	14225	US	23	Super-Regional	1,900,000	250
Eastern Hills Mall	4545 Transit St	Williamsville	14221	US	23	Super-Regional	1,044,500	115
McKinley Mall	3701 McKinley Pky	Buffalo	14219	US	27	Super-Regional	1,058,600	106
Southgate Plaza	968 Union Rd	West Seneca	14224	US	28	Regional	599,700	117
Quaker Crossing East	3405 Amelia Dr	Orchard Park	14127	US	30	Regional	712,600	5
Summit Mall	6929 Williams Rd	Niagara Falls	14304	US	not applic.	Regional - closed	582,500	2
Ontario								
Pen Centre	221 Glendale Ave	St. Catharines	L2T 2K9	Can	17	Super-Regional	1,036,700	180

Notes:

(1) Intersection of Niagara Falls Blvd & Military Rd. Mileage and drive times from Mapquest.
 (2) Based on current (or recent) space listings, may not be representative of all tenants

Sources:

Co Star Group
 Canadian Directory of Shopping Centers, Monday Report, Rogers Media Inc.
 Individual Centers
 C. J. Law & Associates, LLC

Date:

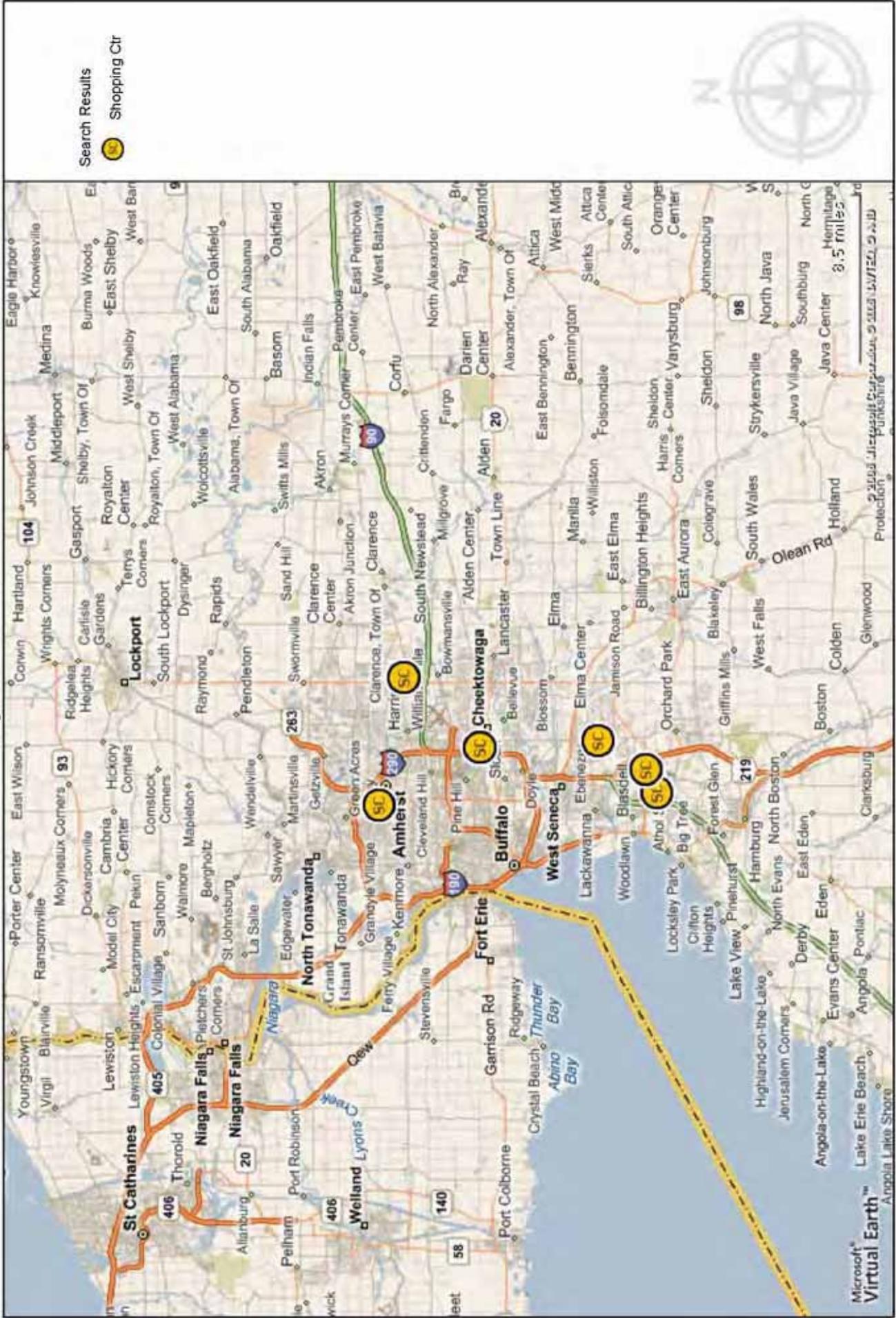
Aug - Oct 2010

Exhibit 1

Super Regional & Regional Malls, Buffalo-Niagara, NY and Niagara-St.Catharines, Ontario

Center	Anchors	Occupancy	Annual Visitors	Annual Sales PSF	Rent Range PSF NNN (2)
New York					
Boulevard Mall	JC Penney, Macy's, Macy's Mens, Sears, Best Buy, Dick's Sporting Goods, DSW Shoe Warehouse, JC Penney, Lord & Taylor, Macy's, Old Navy, Sears	97%	NA	NA	\$22 - \$30 small spaces; \$6 anchor
Walden Galleria	Bon-Ton, Dave & Buster's, JC Penney, Macy's, Sears	100%	18 million (est)	NA	\$40 - small space
Eastern Hills Mall	Bon-Ton, Dick's Sporting Goods, JC Penney, Macy's Sears	100%	NA	NA	\$30 - small space
McKinley Mall	AJ Wright, Bon-Ton	100%	NA	NA	NA
Southgate Plaza	Ashley Furniture Home Store, Borders, Kohl's, Marshalls, PetSmart	95%	NA	NA	\$10 - small spaces
Quaker Crossing East	Sears, Save a Lot supermarket	97%	NA	NA	\$14 - \$18 - small spaces
Summit Mall		Mall closed	Not applic.	Not applic.	NA
Ontario					
Pen Centre	The Bay, Empire Theaters, Sears, Winners, Home Sense, Zehr's, Zellers	100%	11 million + (est)	\$458 Canadian	NA

Major Malls, US



**Exhibit 2
Outlet Malls, Niagara Falls, NY, and Niagara Falls, Ontario**

Center	Location	City	Zip Code	US / Canada	Type	Retail GLA	No. of Stores	Occupancy
Fashion Outlets of Niagara Falls	1900 Military Rd	Town of Niagara	14304	US	Outlet Mall	533,000	150+	100%
Canada One Factory Outlets	7500 Lundy's Lane	Niagara Falls, Ont	L2H 1G8	Can	Outlet Mall	198,000	40	100%

Planned

Glenview Factory Outlet Mall	Buttrey/Victoria/Bridge	Niagara Falls, Ont		Can	Planned Ph I Planned Ph II	300,000 200,000		
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Sources: Canadian Directory of Shopping Centers, Monday Report, Rogers Media Inc.
Individual Centers
C. J. Law & Associates, LLC

Date: Aug - Oct 2010

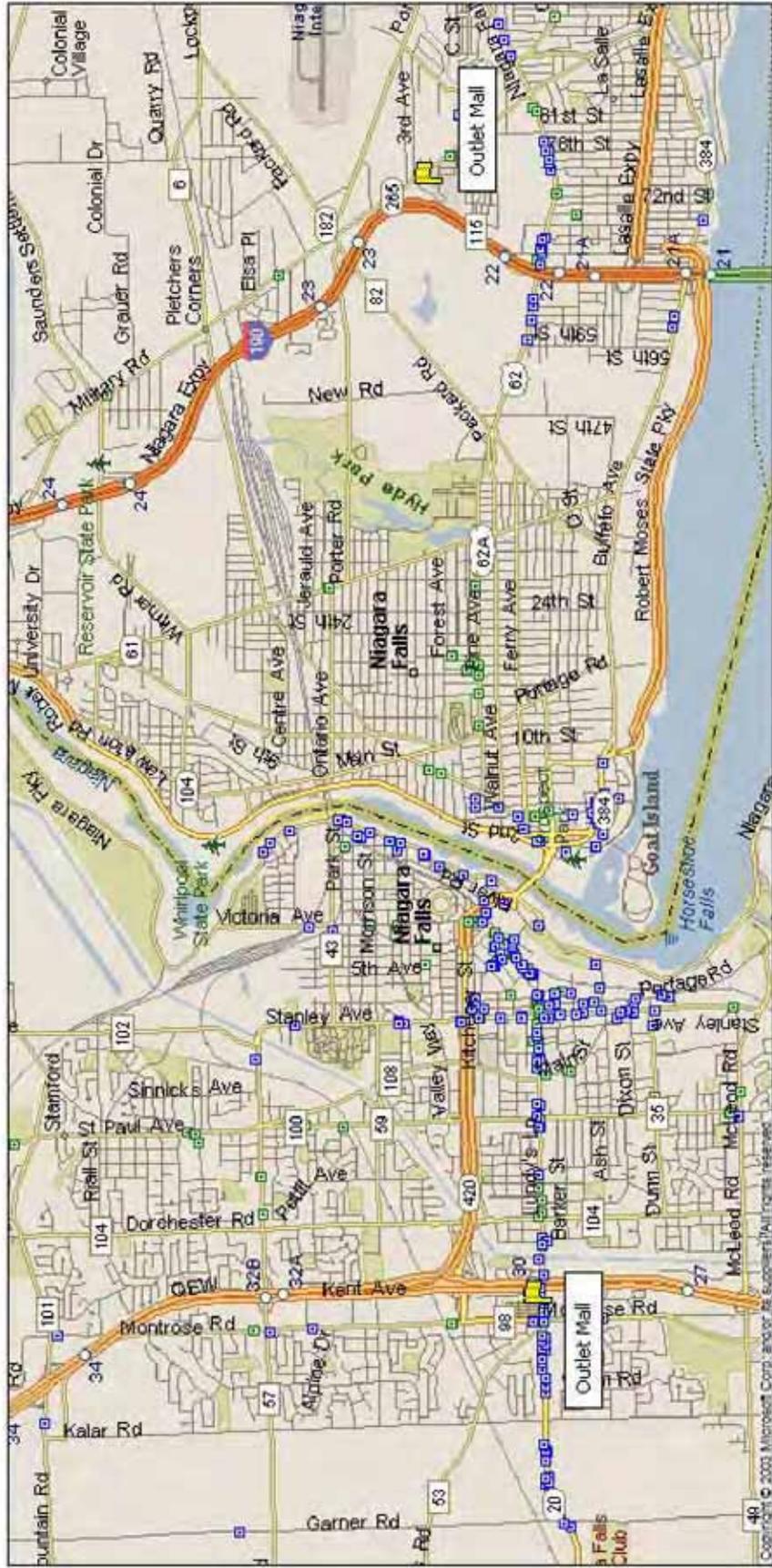
Exhibit 2
Outlet Malls, Niagara Falls, NY, and Niagara Falls, Ontario

Center	Annual Visitors	Annual Sales PSF	Rent Range PSF NNN	Comments
Existing				
Fashion Outlets of Niagara Falls	6 million (est)	\$800 range	NA	
Canada One Factory Outlets		\$800 range	\$33 average	CAM \$21

Planned

Glenview Factory Outlet Mall

Outlet Malls, Niagara Falls, NY and Niagara Falls, Ontario



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**Exhibit 3
Power Centers, Niagara Falls / Amherst, NY Area and Niagara Falls, Ontario**

Center	Location	City	Zip Code	US / Canada	Miles from Niagara Falls, NY (1)	Type	Retail GLA	No. of Stores
Power Centers - New York								
La Salle Center	Military Road	City of Niagara Falls	14304	US	in Niagara Falls	Power Center	571,300	1 existing + 3 big box sites
Boulevard Consumer Square	1565 Niagara Falls Blvd	Amherst	14228	US	15	Power Center	706,700	30
Amherst Shopping Center	3050 Sheridan Dr	Amherst	14226	US	17	Power Center	421,100	12
Future Retail Development	1340 Military Road	City of Niagara Falls	14304	US	in Niagara Falls	Power Center		
Power Centers - Ontario								
Rio Can Niagara Falls	7190 Morrisson St.	Niagara Falls, Ont	L2E 7K5	Can	10	Power Center	367,700	16
Smart Centres Niagara Falls	McLeod Rd/Oakwood Dr	Niagara Falls, Ont		Can	12	Power Center	350,000	1
McLeod Square	McLeod Rd/Montrose	Niagara Falls, Ont		Can	12	Power Center	220,500	9

Additional Major Big Box Stores - Niagara Falls, NY

Home Depot	750 Builders Way	City of Niagara Falls	14304	US	in Niagara Falls	Big Box		
K-Mart	2590 Military Rd	Town of Niagara	14304	US	in Niagara Falls	Big Box		
Sam's Club	5535 Porter Rd	City of Niagara Falls	14304	US	in Niagara Falls	Big Box		

Notes: (1) Intersection of Niagara Falls Blvd & Military Rd. Mileage and drive times from Mapquest.
(2) Based on current (or recent) space listings, may not be representative of all tenants

Sources: Co Star Group
Canadian Directory of Shopping Centers, Monday Report, Rogers Media Inc.
Individual Centers
C. J. Law & Associates, LLC
Aug - Oct 2010

Table 3
Power Centers, Niagara Falls / Amherst, NY Area and Niagara Falls, Ontario

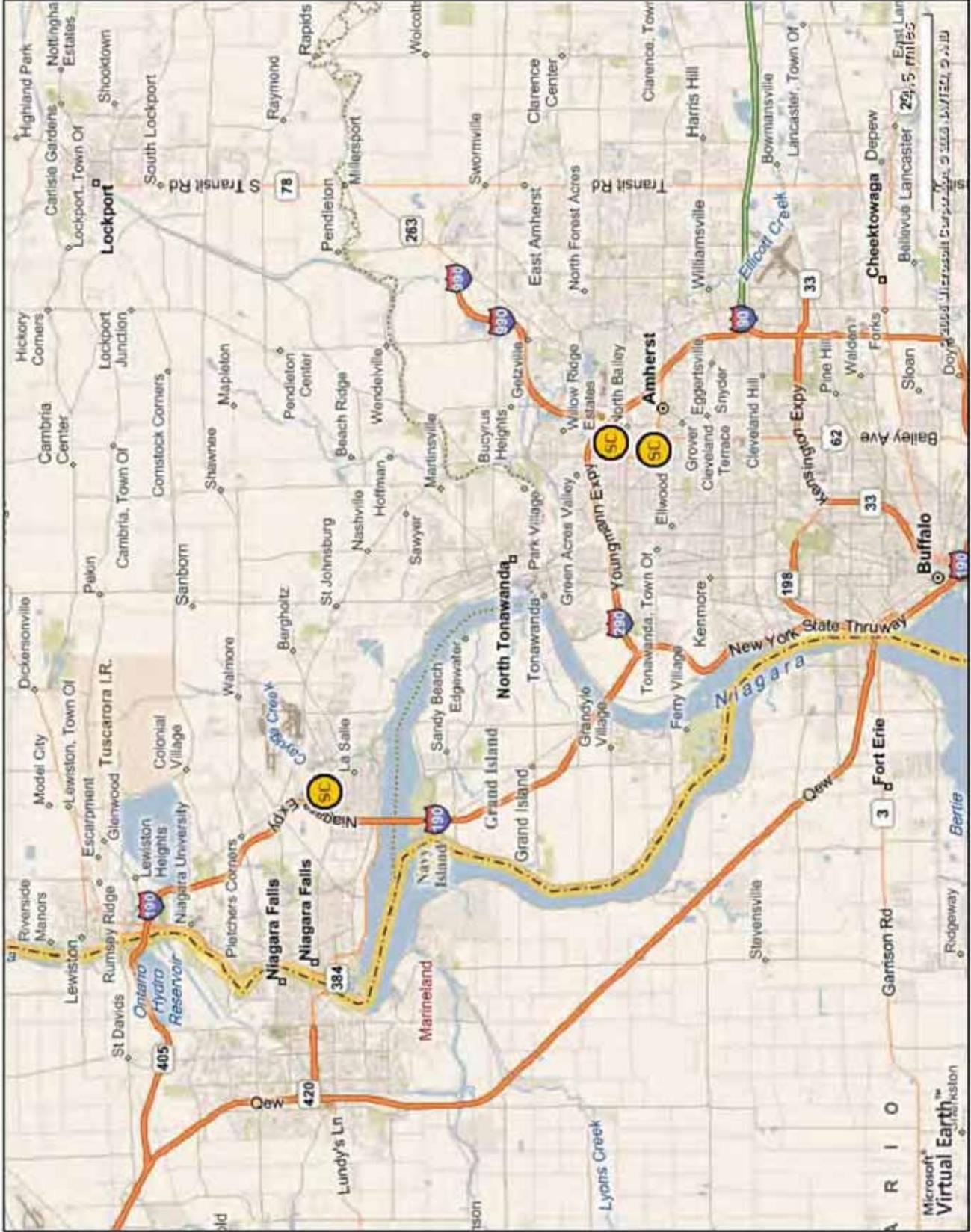
Center	Anchors	Occupancy	Rent Range PSF NNN (2)	Comments
Power Centers New York				
La Salle Center	Walmart (269,000 sq. ft.) Babies R Us, Barnes & Noble, Bed Bath & Beyond, Best Buy, Lowe's, Target	47% of planned SF	NA	4 restaurant outparcels - 1 leased
Boulevard Consumer Square Amherst Shopping Center	TJ Maxx, Toys R Us	93% 64%	NA \$6 - \$17	
Future Retail Development				
Ontario				
Rio Can Niagara Falls Smart Centres Niagara Falls	Home Depot, Staples, Walmart, Zehrs Walmart under construction	100% u/c planned	\$15 - low \$20s Canadian NA	CAM + Taxes \$10 psf
McLeod Square	Lowe's (130,000 sq. ft.)	u/c	\$25 - \$28 Canadian - small tenants	CAM + Taxes \$8.50 psf

Additional Major Big Box Stores - Niagara Falls, NY

Home Depot
K-Mart
Sam's Club

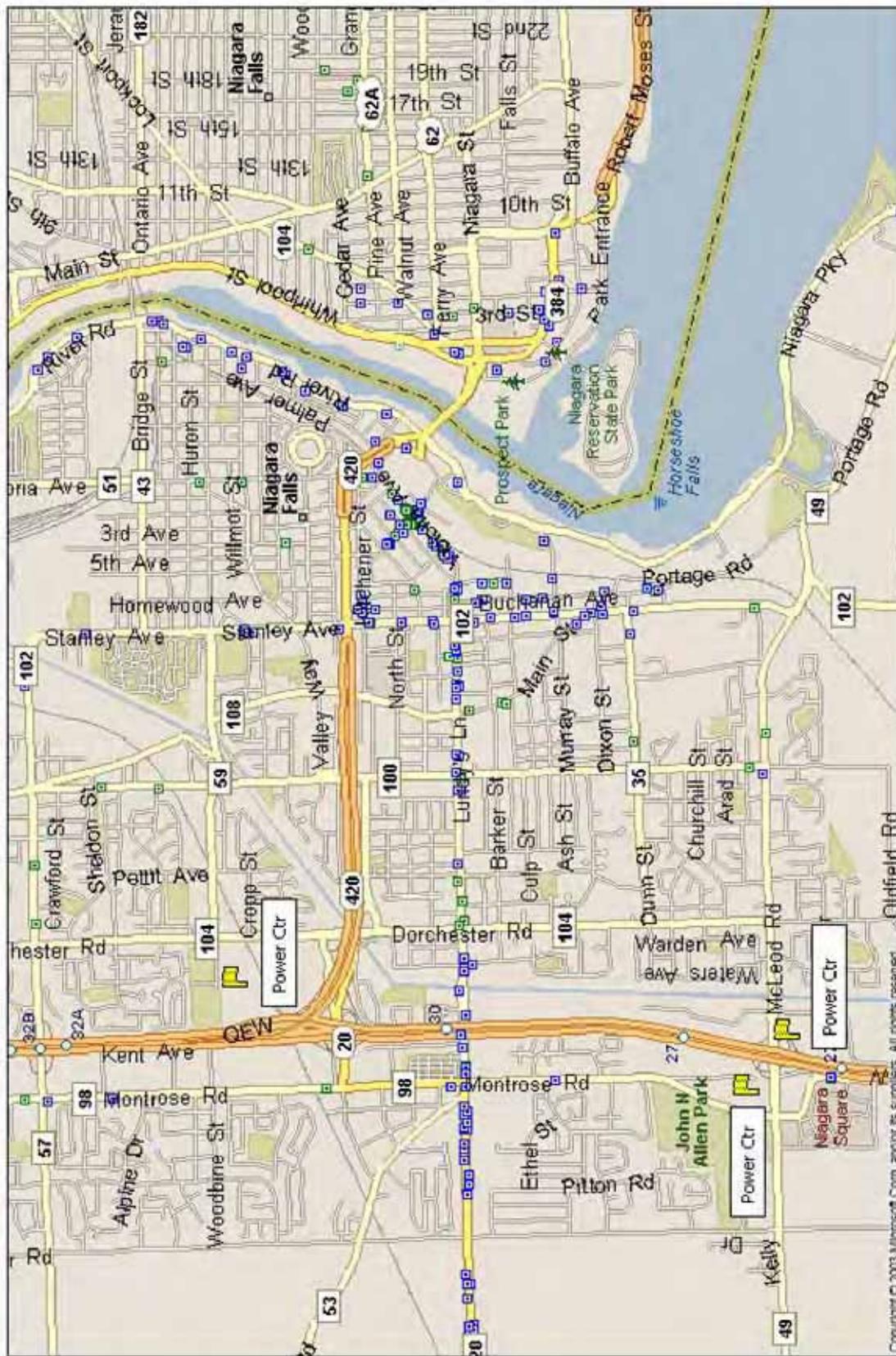
Power Centers USA

Search Results
Shopping Ctr



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Power Centers, Niagara Falls, Ontario



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Exhibit 4

**Community Centers and Larger Neighborhood Centers (80,000 sq.ft. and above)
Niagara Falls, NY Area (City and Township of Niagara Falls, Grand Island, North Tonawanda, Tonawanda)
Niagara Falls, Ontario**

Center	Location	City	Zip Code	US / Canada	Miles from Niagara Falls, NY (1)	Type	Retail GLA	No. of Stores
Niagara Falls								
Existing								
Niagara Consumer Square	7310 Niagara Falls Blvd	City of Niagara Falls	14304	US		Community	317,700	15
Niagara Square	2400 Military Rd	Town of Niagara	14304	US		Community	187,400	12 +/-
Wegmans Plaza	1575 Military Rd	Town of Niagara	14304	US		Neighborhood	122,900	16
Milpine Plaza	8400 Niagara Falls Blvd	City of Niagara Falls	14304	US		Neighborhood	112,000	10
Portage Center	810 & 1000 Portage Rd	City of Niagara Falls	14301	US		Neighborhood	111,000	7
Pine Plaza	8207 Niagara Falls Blvd	City of Niagara Falls	14304	US		Neighborhood	82,300	20
Planned								
Military Place	1935 Military Rd	Town of Niagara	14304	US		Community - Dev Site	135,300	4 planned

Exhibit 4
Community Centers and Larger Neighborhood Centers (80,000 sq.ft. and above)
Niagara Falls, NY Area (City and Township of Niagara Falls, Grand Island, North Tonawanda, Tonawanda)
Niagara Falls, Ontario

Center	Anchors	Occupancy	Annual Sales PSF	Rent Range PSF NNN (2)	Comments
Niagara Falls					
Existing					
Niagara Consumer Square	Target, Tops Markets Big Lots, Dollar Tree, Jo-Ann Fabrics, Rosa's Home Furnishings	100%	NA	NA	Available pad sites Center in transition to hybrid center with service, office use
Niagara Square		41%	NA	\$9 - current listing for 22,000 SF \$12 - \$14 current listings (1,200 to 8,000 SF); Wegmans - mid single digits; center averages \$12 - \$20 for smaller tenants	
Wegmans Plaza	Wegmans supermarket, World Gym	95%	NA	\$8 - \$12 - current listing for 11,600 SF; low teens - center average ins \$0.19	CAM \$3.50; RE tax \$3.04
Milpine Plaza	Family Dollar, Ollie's Bargain Outlet	90%	NA		
Portage Center	Tops Markets, Rite Aid	100%	NA	\$10 - list rent for smaller tenants	
Pine Plaza	Fashion Bug, Office Max, Milly's Home Style Buffet	79%	Clothing tenants - \$160	\$8 - \$12 - current listings (2000 - 10,000 SF); center averages \$8-\$10 for larger tenants, \$12 to \$18 for smaller tenants	CAM \$2.12; RE tax \$2.55
Planned					
Military Place	Not built	Not built	Not built	Not built	2 restaurant pads, 1 occupied

Exhibit 4

**Community Centers and Larger Neighborhood Centers (80,000 sq.ft. and above)
Niagara Falls, NY Area (City and Township of Niagara Falls, Grand Island, North Tonawanda, Tonawanda)
Niagara Falls, Ontario**

Center	Location	City	Zip Code	US / Canada	Miles from Niagara Falls, NY (1)	Type	Retail GLA	No. of Stores
Youngmann Plaza	750 Young St	Tonawanda	14150	US	14	Community	318,200	16
Mid-City Plaza	287 Meadow Dr	No. Tonawanda	14120	US	7	Community	228,000	46
Office Depot Plaza	2309 Eggert Rd	Tonawanda	14150	US	15	Community	121,900	18
Tops Plaza	2130 Grand Island Blvd	Grand Island	14072	US	7	Neighborhood	104,700	7
Grand Island Plaza	2411 Grand Island Blvd	Grand Island	14075	US	6	Neighborhood	101,600	18 +/-
Tops -Valu Plaza	1365 Nash Rd	No. Tonawanda	14120	US	7	Neighborhood	99,300	3 major
Tops Plaza	76 Niagara St	Tonawanda	14150	US	7	Neighborhood	97,000	9

Adjacent Communities

Exhibit 4

**Community Centers and Larger Neighborhood Centers (80,000 sq.ft. and above)
Niagara Falls, NY Area (City and Township of Niagara Falls, Grand Island, North Tonawanda, Tonawanda)
Niagara Falls, Ontario**

Center	Anchors	Occupancy	Annual Sales PSF	Rent Range PSF NNN (2)	Comments
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Adjacent Communities

Youngmann Plaza	Big Lots, BJ's Wholesale, Family Dollar, Gander Mountain (Sporting Goods), Tops Markets	96%	NA	\$10 - \$12 - smaller spaces	
Mid-City Plaza	CVS Pharmacy, Dollar Tree, Family Dollar, Fashion Bug, Grossman's Bargain Outlet, Tops Markets	94%	NA	\$13 - \$19 - smaller spaces; average center rent including anchors \$11	
Office Depot Plaza	Best Fitness, Office Depot	79%	NA	\$7.75 - 13,000 SF space	
Tops Plaza	Dollar Tree, Tops Markets	77%	NA	NA	
Grand Island Plaza	Family Dollar	52%	NA	\$7 - \$10 - smaller spaces; \$5.50 - 35,000 SF listing	
Tops -Valu Plaza	Rite Aid, Valu Home Centers	97%	NA	\$14 - small space listing	Home Improvement Ctr
Tops Plaza	Tops Markets	91%	NA	\$14 - smaller spaces	Retail & service tenants

Exhibit 4

**Community Centers and Larger Neighborhood Centers (80,000 sq.ft. and above)
Niagara Falls, NY Area (City and Township of Niagara Falls, Grand Island, North Tonawanda, Tonawanda)
Niagara Falls, Ontario**

Center	Location	City	Zip Code	US / Canada	Miles from Niagara Falls, NY (1)	Type	Retail GLA	No. of Stores
Niagara Square	7555 Montrose Rd	Niagara Falls, Ont	L2H 2E9	Can	12	Community	309,200	78
Mount Carmel Centre	3930 Montrose Rd	Niagara Falls, Ont	L2H 3C9	Can	11	Community	189,700	43
Niagara Falls Plaza	6777 Morrison St	Niagara Falls, Ont	L2E 2G5	Can	9	Community	143,800	3
Thorold Stone Plaza	6161 Thorold Stone Rd	Niagara Falls, Ont	L2J 1A4	Can	13	Neighborhood	81,500	14

Niagara Falls, Ontario

Notes: (1) Intersection of Niagara Falls Blvd & Military Rd. Mileage and drive times from Mapquest.
(2) Based on current (or recent) space listings, may not be representative of all tenants.
Where available average rents noted.

Sources: Co Star Group
Canadian Directory of Shopping Centers, Monday Report, Rogers Media Inc
Individual Centers
C. J. Law & Associates, LLC

Date: Aug - Oct 2010

Exhibit 4

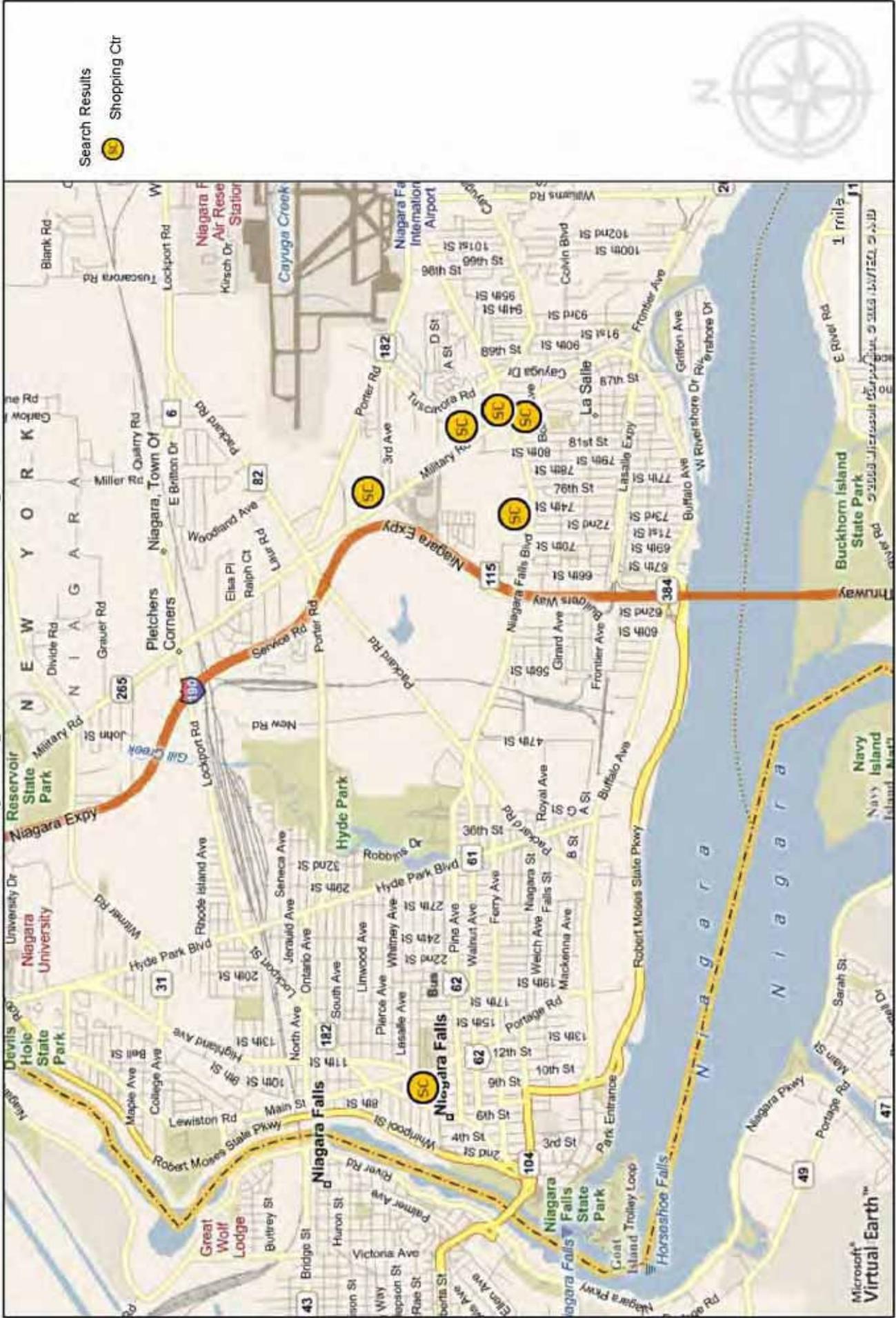
**Community Centers and Larger Neighborhood Centers (80,000 sq.ft. and above)
Niagara Falls, NY Area (City and Township of Niagara Falls, Grand Island, North Tonawanda, Tonawanda)
Niagara Falls, Ontario**

Center	Anchors	Occupancy	Annual Sales PSF	Rent Range PSF NNN (2)	Comments
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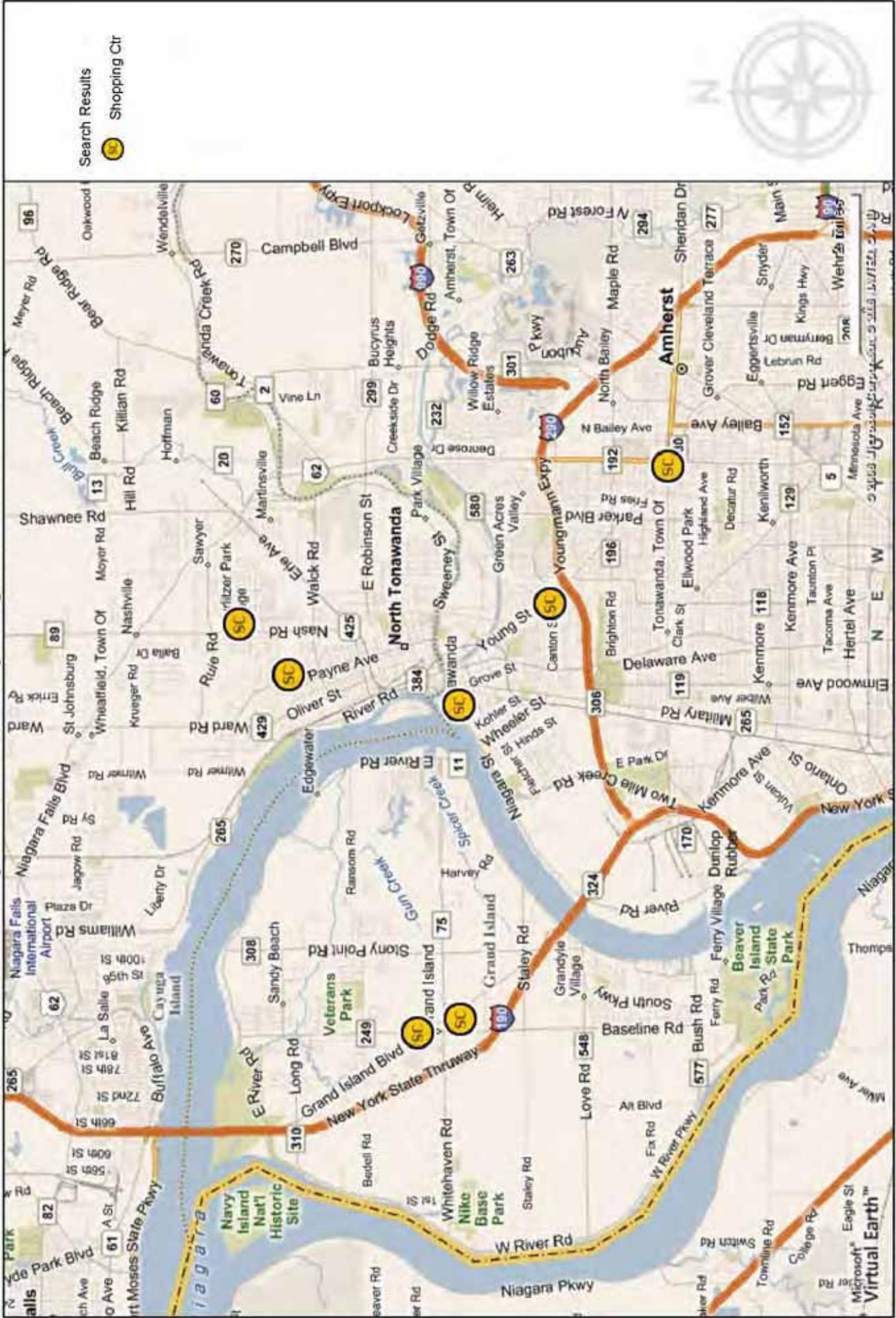
Niagara Falls, Ontario

Niagara Square	The Brick (home), Cineplex, Future Shop (electronics), JYSK Linen n Furniture, LW Outlet, Michaels (arts&crafts), Sport Chek, Winners (apparel)	89%	\$300 - \$325 Canadian	vary by type, size of tenant	Sold outparcel to Canadian Tire Store; CAM \$9.34, RE tax \$9.47
Mount Carmel Centre	Canadian Tire (general), Metro (supermarket)	visual est 90%	NA	\$10 - average non-anchor space	Mix of retail & service tenants
Niagara Falls Plaza	Foodland, Zellers	100%	NA	NA	
Thorold Stone Plaza	Commissio's Fresh Foods, Giant Tiger	NA	NA	\$16 - average non-anchor space	\$5 CAM, RE tax, ins

Community Neighborhood Ctrs Niagara Falls



Adjacent Community Neighborhood Ctrs



Community and Larger Neighborhood Centers, Niagara Falls, Ontario

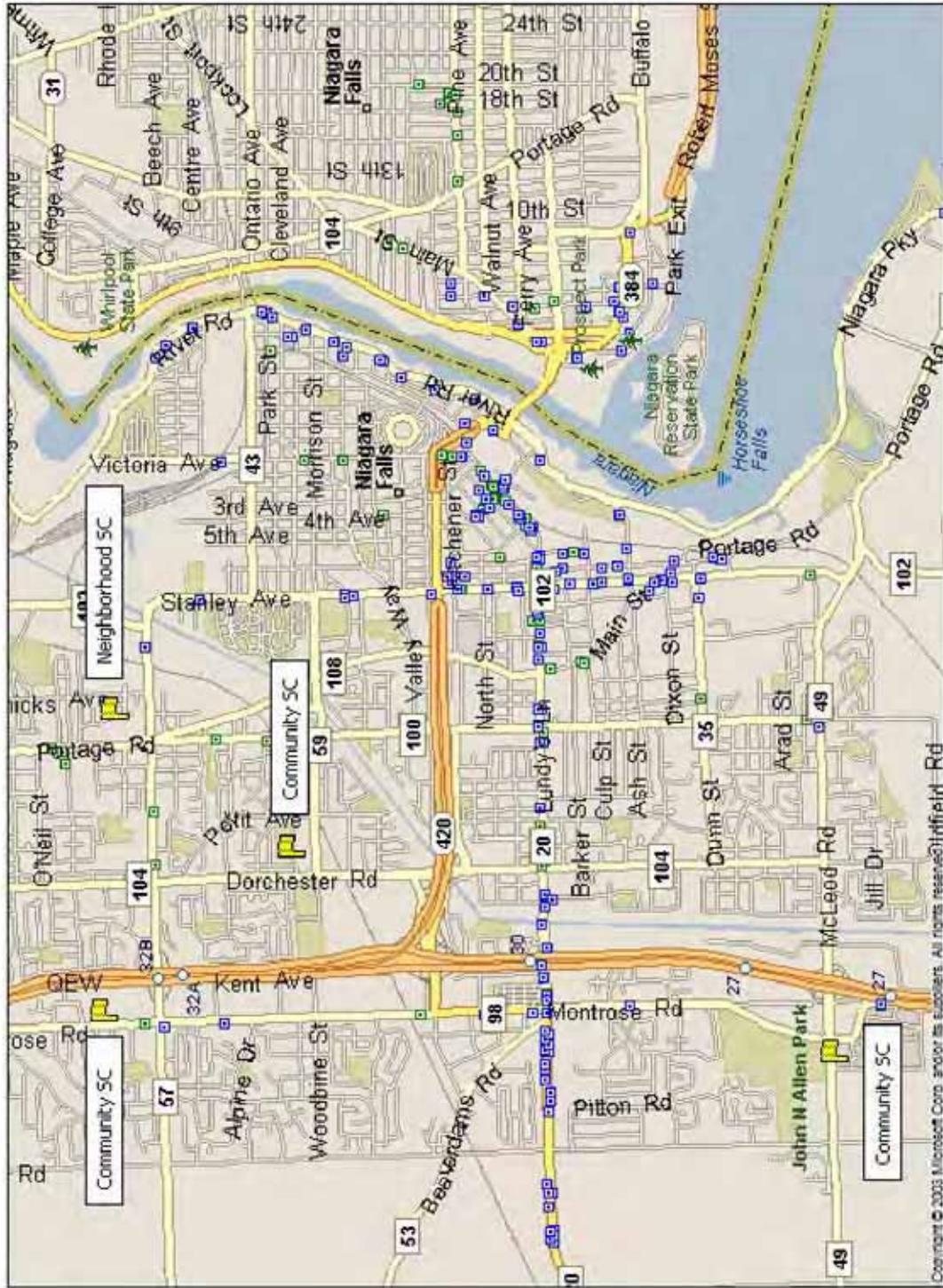


Exhibit 5 - Tourist Study Area Retail Space

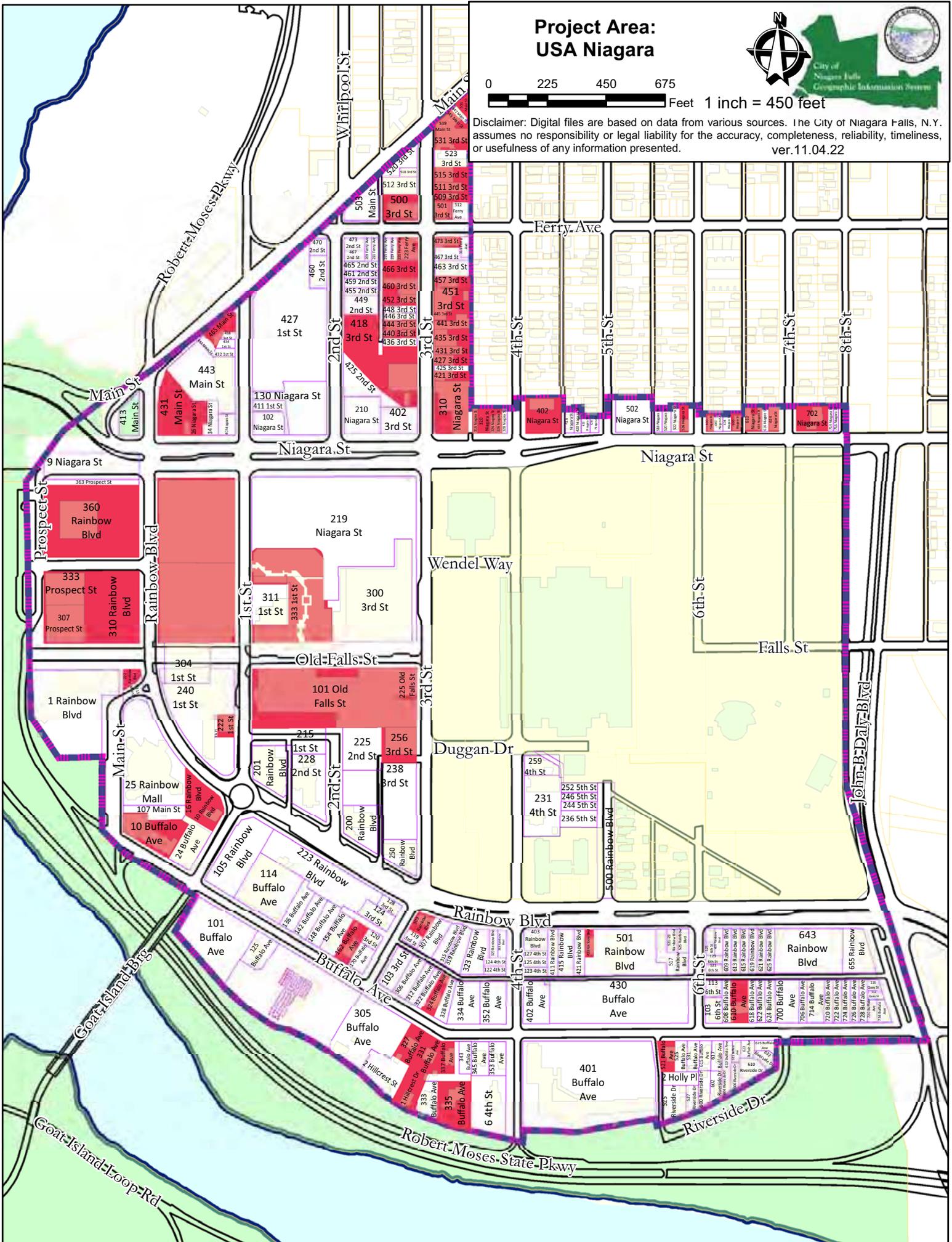
Address	Site Area	Gross Floor Area	Stories	Est. Sq. Ft. 1st Floor	Subtotals	Available (1)	Comments
RETAIL SPACE							
435 3rd St	8,731	9,670	2	4,835		Available	
460 3rd St	8,749	11,348	2	5,674		Available	
531 3rd St	8,841	16,708	3	5,569		Available	
543 Main St	443	448	1	448		Available	
610 Niagara St	3,876	8,096	3	2,699		Available	
222 Rainbow Blvd	3,978	5,332	2	5,332	24,557	Available	Haunted House
461 3rd St	13,062	12,045	2	6,023		No/Occupied	Restaurant, liquor store, convenience store - u/o
418 3rd St	58,374	15,159	2	7,580		No/Occupied	Bank
465 Main St	8,070	1,252	1	1,252		No/Occupied	Mini Mart & Gas
539 Main St	4,031	6,164	2	3,082		No/Occupied	
402 Niagara St	17,469	3,948	1	3,948		No/Occupied	Wilson Farms (Mini Mart)
333 Prospect St	39,374	11,601	1	11,601		No/Occupied	Hard Rock, JD Gifts
303 Rainbow Blvd	5,400	2,155	1	2,155		No/Occupied	Mini Mart
16 Rainbow Blvd	10,696	2,415	1	3,360		No/Occupied	Honeymoon Capital Souvenirs
360 Rainbow Blvd	99,020	186,624	9	18,904	57,904	Retail/Occupied	Retail SF per Tax Assessor, Souvenirs
511 3rd St	4,967	6,648	2	3,324		Unk/Vacant	
526 Niagara St	3,446	1,469	1	1,469		No/Vacant	
600 Niagara St	2,018	1,800	1	1,800		No/Vacant	
606 Niagara St	2,173	2,510	2	1,255		No/Vacant	
316 Niagara St	1,980	1,955	1	1,955		Unk/Vacant	former tavern
320 Niagara St	4,045	1,600	1	1,600		Unk/Vacant	former retail, diner
324 Niagara St	1,980	1,452	1	1,452		Unk/Vacant	former tavern
326 Niagara St	1,980	1,760	1	1,760		Unk/Vacant	former diner
614 Niagara St	1,908	1,814	1	1,814		Unk/Vacant	
624 Niagara St	3,583	11,088	3	3,696	20,125	Unk/Vacant	former retail, diner
RETAIL SPACE - SPECIAL CIRCUMSTANCES							
1 Rainbow Blvd	NA	NA	1 retail	19,500		Partially Occupied	Comfort Inn, possible retail, restaurant
307 Prospect St	22,500	19,600	1	19,600		No/Occupied	Niagara's Wax Museum of History
Rainbow Blvd	185,645	NA	NA	NA		Rainbow Mall	Culinary Institute + retail potential
333 1st St	69,774	85,314	2	NA		Vacant Call Ctr	Professional office bldg classification

Note (1): Based on survey by City of Niagara Falls, Spring 2011
 Sources: City of Niagara Falls, C. J. Law & Associates, LLC

Project Area: USA Niagara



Disclaimer: Digital files are based on data from various sources. The City of Niagara Falls, N.Y. assumes no responsibility or legal liability for the accuracy, completeness, reliability, timeliness, or usefulness of any information presented. ver.11.04.22



**Exhibit 6
Tourist-Oriented Retail, Niagara Falls, Ontario**

Center	Location	City	Zip Code	US / Canada	Type	Retail GLA	No. of Stores	Anchors
Galleria	Fallsview Casino, 6380 Fallsview Blvd.	Niagara Falls, Ont		Can	Casino retail	80,000 - 90,000	20+ retail only; 12+ food & restaurant	Retail tenants of 550 - 4725 sq.ft.
Clifton Hill, Sheraton	Clifton Hill, Victoria Ave., Falls Ave. Downtown Area - Queen St. from Victoria Ave. to Zimmerman Ave.	Niagara Falls, Ont	L2G 3K7	Can	Tourist retail			Souvenir Shops, Build A Bear, Hershey's Store
Queen Street		Niagara Falls, Ont		Can	Local retail	NA	20 - 25 retail/gallery; 13 restaurants	

Notes: (2) Based on current (or recent) space listings, may not be representative of all tenants

Sources: Individual Centers/Websites
C. J. Law & Associates, LLC

Date: Aug - Oct 2010

**Exhibit 6
Tourist-Oriented Retail, Niagara Falls, Ontario**

Center	Occupancy	Annual Visitors	Annual Sales PSF	Rent Range PSF NNN (2)	Comments
Galleria	100%	9 million to casino	\$550 (est)	NA	Approximately 1/3 of space is retail; 2/3rds is food/restaurant.
Clifton Hill, Sheraton	not applic.		NA	NA	
Queen Street	Significant vacancy		NA	NA	Greater lunchtime business from DT workers.

Tourist Oriented Retail, Niagara Falls, Ontario

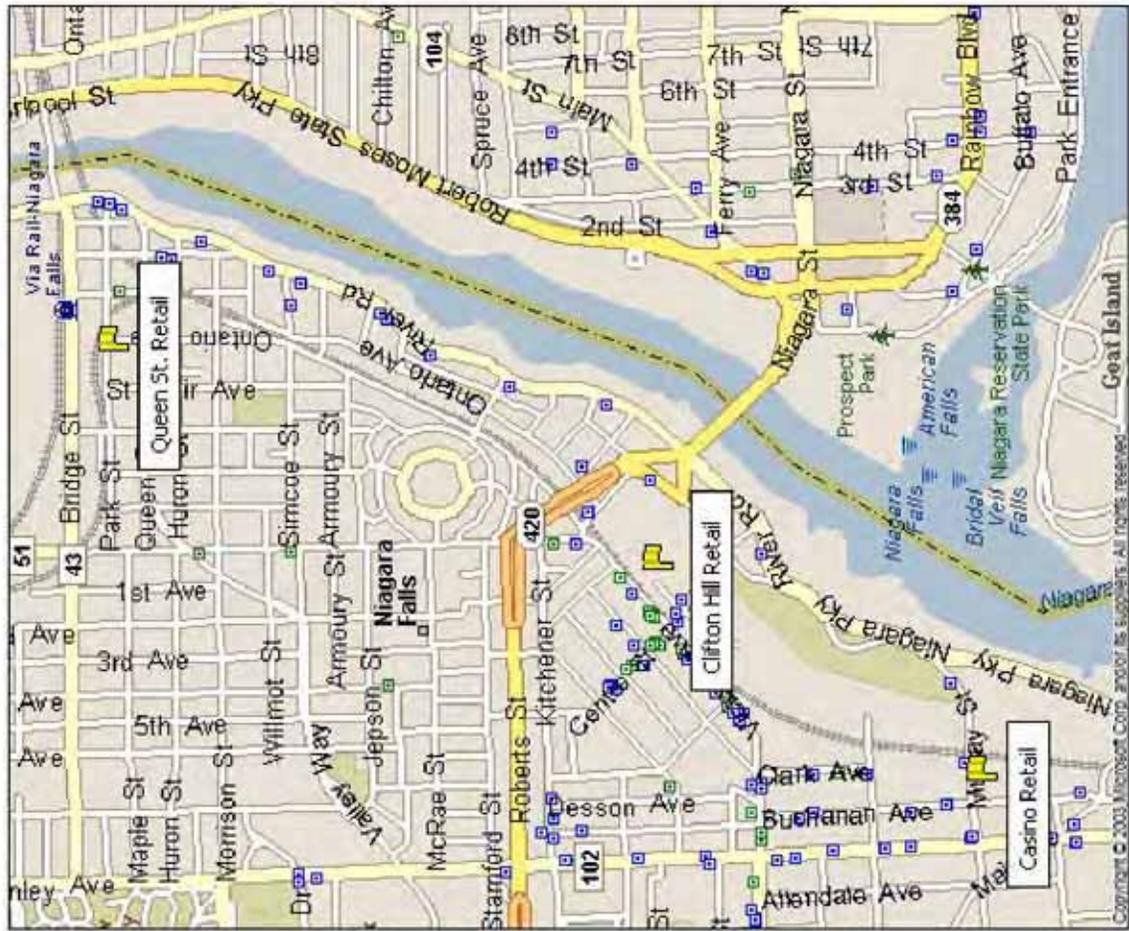


Exhibit 7
Galleria Shops, Fallsview Casino

	Tenant	Type	Sq.Ft.	
1	Bentely	Luggage and Leather Goods		
2	Bijoux Terner	Accessories	1,680	
3	Bikini Bay	Swimwear	1,320	
4	Danier Leather	Clothing & accessories	900	
5	La Vie en Rose	Lingerie	1,960	
6	Lids	Athletic Hats	720	
7	Life is Good/Jake's Niagara	Apparel - casual	805	
8	Tango	Ladies apparel	1,150	
9	Sirens	Female clubwear	4,725	
10	Urban Cotton Company	Womens clothes	2,925	
11	Faces	Cosmetics		
12	Vivah	Jewelery	580	
13	Watch It	Watches	980	
	Fashion and Accessories		17,745	
14	David Leonard	Fine Art	2,595	
15	Fruits & Passion	Personal Care Products	735	
16	Funtees	Sports merchandise	1,745	
17	Gateway Newsstands		614	
18	Havana	Tobacco	550	
19	Swarovski		770	
20	Swiss Fudge		905	
21	Turtle Pond Toys	toys	1,120	
	Gifts & Souvenirs		9,034	
1	Auntie Anne's Pretzels		690	
2	Teaopia	Teas	610	
3	Sweet Point		480	
4	Café Court	Tim Hortons	2,255	
5		Johnny Rockets	2,180	
6		Mama Mia's	3,275	
7		Falls & Firkin	2,350	
8	Restaurant	Shoeless Joes	4,955	
9	Restaurant	The Famous	5,240	
10	Restaurant	Canyon Creek	7,800	
11	Restaurant	Ponte Vecchio	7,500 est.	
12	Restaurant	Golden Lotus	7,500 est.	
1	Nightclub	Dragonfly Nightclub	11,740	
	Food & Restaurant		56,575	
	Total Retail		26,779	32%
	Total Food		56,575	68%
	TOTAL		83,354	100%
	Subway		850	
	Hair Salon		860	
	Foreign Exchange		385	
	Bridge		2,095	

**Exhibit 8
Niagara Falls Trade Area Demographics**

Trade Area Demographics	Primary, Secondary, & Tertiary Trade Areas		
	5 - Mile Radius, USA (Note 1)	8 - Mile Radius, USA (Note 1)	St. Catharines- Niagara Falls, Ontario CMA Canadian \$
Population - 2010 Estimate	87,381	160,300	86,691
Households - 2010 Estimate	36,381	66,561	34,504
Historical Annual Population Growth 2000 - 2010	-0.51%	-0.29%	0.15%
2005 - 2010			0.39%
Projected Annual Population Growth 2010 - 2015	-0.39%	-0.27%	
Historical Annual Household Growth 2000 - 2010	-0.34%	-0.27%	0.83%
2005 - 2010			0.86%
Projected Annual Household Growth 2010 - 2015	-0.30%	-0.31%	
Median HH Income - 2010 Estimate	\$45,641	\$49,981	\$50,000 - \$60,000
Average HH Income - 2010 Estimate	\$56,179	\$60,306	\$69,263
Average HH Size - 2010 Estimate	2.3	2.4	2.4 (est)
Median Age - 2010 Estimate	40.6	41.5	NA
Associates or College Degree % (2010 est)	32%	35%	35%
Owner-Occupancy	64%	68%	74%
Rental-Occupancy	36%	32%	26%

Notes: (1) From intersection of Niagara Falls Boulevard and Military Road, Niagara Falls

Sources: ESRI (US data), Environics Analytics (Canadian data), C. J. Law & Associates, LLC

**Exhibit 9
Tapestry Segments - Niagara Falls
Five Mile Radius (Note 1)**

<i>Rank</i>	<i>Tapestry Segment</i>	<i>Percent</i>	<i>Cumulative %</i>
1	Rustbelt Retirees (29)	20.6%	20.6%
2	Cozy and Comfortable (18)	14.0%	34.6%
3	Rustbelt Traditions (32)	12.4%	47.0%
4	City Dimensions (60)	7.8%	54.8%
5	Simple Living (57)	5.6%	60.4%

Notes:

(1) From intersection of Niagara Falls Boulevard and Military Road, Niagara Falls

Sources: ESRI (US data), C. J. Law & Associates, LLC

Exhibit 10				
Niagara Falls Tourist Area Demographics				
Trade Area Demographics	Primary, Secondary, & Tertiary Trade Areas			
	1 - Mile Radius, USA (Note 1)	2 - Mile Radius, USA (Note 1)	5 - Mile Radius (Note 1)	Niagara Falls, Ontario Canadian \$
Population - 2010 Estimate	5,659	23,291	53,987	86,691
Households - 2010 Estimate	2,619	10,611	22,868	34,504
Historical Annual Population Growth 2000 - 2010	-1.29%	-0.92%	-0.82%	0.11%
Projected Annual Population Growth 2010 - 2015	-0.76%	-0.61%	-0.57%	0.53%
Historical Annual Household Growth 2000 - 2010	-1.29%	-0.92%	-0.68%	0.83%
Projected Annual Household Growth 2010 - 2015	-0.76%	-0.61%	-0.49%	1.03%
Median HH Income - 2010 Estimate	\$21,248	\$26,939	\$36,908	\$50,000 - \$60,000
Average HH Income - 2010 Estimate	\$32,484	\$37,085	\$47,689	\$69,263
Average HH Size - 2010 Estimate	2.0	2.1	2.3	2.4 (est)
Median Age - 2010 Estimate	40.9	39.1	37.0	NA
Associates or College Degree % (2010 est)	21%	22%	27%	35%
Owner-Occupancy	29%	55%	58%	74%
Rental-Occupancy	71%	45%	42%	26%
Total Businesses	395	883		
Total Employees	9,655	14,491		
Employee / Resident Population Ratio	1.71	0.62		
Notes:	(1) From intersection of N. Rainbow Blvd. & Old Falls Blvd., Niagara Falls			
Sources:	ESRI (US data), Environics Analytics (Canadian data), C. J. Law & Associates, LLC			

Exhibit 11
Tapestry Segments - Tourist Study Area
One, Two & Five Mile Radius (Note 1)

One-Mile Radius

<i>Rank</i>	<i>Tapestry Segment</i>	<i>Percent</i>	<i>Cumulative %</i>
1	Simple Living (57)	30.7%	30.7%
2	City Commons (64)	28.3%	59.0%
3	Social Security Set (65)	14.3%	73.3%
4	Modest Income Homes (62)	13.7%	87.0%
5	City Dimensions (60)	13.1%	100.1%

Two-Mile Radius

<i>Rank</i>	<i>Tapestry Segment</i>	<i>Percent</i>	<i>Cumulative %</i>
1	City Dimensions (60)	26.9%	26.9%
2	Simple Living (57)	19.2%	46.1%
3	Modest Income Homes (62)	15.2%	61.3%
4	Social Security Set (65)	8.7%	70.0%
5	City Commons (64)	7.5%	77.5%

Five-Mile Radius

<i>Rank</i>	<i>Tapestry Segment</i>	<i>Percent</i>	<i>Cumulative %</i>
1	Rustbelt Retirees (29)	22.4%	22.4%
2	City Dimensions (60)	12.5%	34.9%
3	Rustbelt Traditions (32)	12.3%	47.2%
4	Simple Living (57)	8.9%	56.1%
5	City Commons (64)	8.0%	64.1%

Notes:

(1) From intersection of N. Rainbow Blvd. & Old Falls St., Niagara Falls

Sources: ESRI (US data), C. J. Law & Associates, LLC

Exhibit 12

Regional Demographics

	US - 2 Hour Drive (Note 1)	Canada - 2 Hour Drive (Note 2)	US + Canada - 2 Hour Drive
Population - 2010 Estimate	2,692,668	6,937,525	9,630,193
Households - 2010 Estimate	1,065,711	2,558,544	3,624,255
Historical Annual Population Growth 2000 - 2010	-0.06%		
2005 - 2010		1.26%	
Projected Annual Population Growth 2010 - 2015	-0.18%	0.88%	
Historical Annual Household Growth 2000 - 2010	-0.06%		
2005 - 2010		1.73%	
Projected Annual Household Growth 2010 - 2015	-0.18%	1.23%	
Median HH Income - 2010 Estimate	\$52,161	NA	
Average HH Income - 2010 Estimate	\$63,544	\$93,584	

Notes:

- (1) From intersection of N. Rainbow Blvd. & Old Falls St., Niagara Falls
- (2) From intersection of Niagara River Pkwy - River Road and Rainbow Bridge

Sources:

ESRI (US data), Environics Analytics (Canadian data)
C. J. Law & Associates, LLC

Exhibit 13
Niagara Falls, NY, US Visitor Spending, 2009 (Note 1)
(average per person expenditure per TRIP)

Overnight Trips				
		2,400,000		43%
Overnight Visitors				
Spending Category	Per Person per Trip	Per Person per Day	Per Party per Day	% of Total
		1.9	2.8	
Lodging	52	27	77	33%
Restaurant Food & Beverage	34	18	50	21%
Recreation/Siteseeing/Entertainment	31	16	46	19%
Retail Purchases	27	14	40	17%
Transportation at Destination	15	8	22	9%
Total	\$159	\$84	\$234	100%
Average Nights in Niagara Falls	1.9			
Average Size of Travel Party	2.8			

Day Trips				
		3,100,000		57%
Daytrip Visitors				
Spending Category	Per Person per Trip	Per Person per Day	Per Party per Day	% of Total
			2.8	
Lodging	0	same as trip	0	0%
Restaurant Food & Beverage	18		50	30%
Recreation/Siteseeing/Entertainment	23		64	38%
Retail Purchases	12		34	20%
Transportation at Destination	7		20	12%
Total	\$60		\$168	100%
Average Size of Travel Party	2.8			

Notes:

Original survey data (unadjusted)

C. J. Law & Associates adjusted data *italics*

(1) Data is for US visitors to Niagara Falls, NY, only.

(2) National Travel Survey, Niagara Falls, NY, sample = 356 trips (258 overnight trips; 98 day trips)

Sources: Longwoods Travel USA, Niagara Falls, NY, 2009 Visitor Report; C. J. Law & Associates, LLC

Exhibit 14
Niagara Falls, NY, State Park Visitor Spending, 2009 (Note 1)
(average expenditure per PARTY per TRIP)

Spending Category	Per Party per Trip	State Park Visitors		% of Total
		Per Party per Day	Per Person per Day	
		3.6	3.1	
Hotel / Lodging	371	104	33	31%
Food / Drink	317	89	29	27%
Transportation	206	58	19	17%
Attractions	142	40	13	12%
Retail	77	22	7	7%
Other	67	19	6	6%
Total	\$1,180	\$330	\$107	100%
Respondents' estimate of spending in Niagara Falls, USA, only	\$248			
Visitor Profile:				
Percentage of Parties on Overnight Trips	83%			
Percentage of Parties on Day Trips	17%			
Average Trip Length (days) - Note 1	4.1	For the 83% of respondents on overnight stays		
Average Days in Niagara Falls, NY	1.05	For the 83% of respondents on overnight stays		
<i>Via calculation est. average trip length</i>	3.6	<i>Overnight and day trip respondents - weighted average</i>		
Average Size of Travel Party	3.1			

Notes:

Original survey data (unadjusted)

C. J. Law & Associates adjusted data

italics

(1) State Park Visitor Survey based on total spending per party over course of entire trip.

For overnight trips estimated average trip of 4.1 days with only 1.05 average days spent in Niagara Falls, NY.
Therefore daily spending averages may not apply to Niagara Falls.

(2) University of Buffalo staff/student survey of 364 people visiting Niagara Falls State Park

Sources: 2009 Niagara Falls State Park Visitor Survey (US); C. J. Law & Associates, LLC

Exhibit 15
2007 Niagara Tourism & Convention Corp. (NTCC) Visitor Profile Survey
(total spending per person in Niagara Falls, NY)

Total Spending Per Person	Percentage of Niagara Falls, NY Visitors
Less than \$100	40%
\$100 to \$199	31%
\$200 to \$299	17%
\$300 to \$399	7%
\$400 or more	5%
Total	100%

Visitor Profile:

Overnight stays	63%
Average Party Size	2.6

(1) Niagara University staff/student survey of 385 tourists visiting Prospect Park (Niagara Falls State Park, USA)

Sources: 2007 Niagara Tourism & Convention Corp. Visitor Profile Survey; C. J. Law & Associates, LLC

Exhibit 16
Niagara Region, Ontario - Per Person Visitor Spending by Category, 2007
(\$ per person per VISIT)

Expenditure Category	All Visitors (\$ 000s)	Per Person per Trip 11,034,000	Inflated to \$ 2010 1.05	% of Total 100%
Accommodation	437,182	39.62	41.47	27%
Food & Beverage Total	494,997	44.86	46.95	30%
<i>At Restaurants / Bars</i>	404,858	36.69	38.40	25%
<i>At Stores</i>	90,139	8.17	8.55	6%
Recreation / Entertainment	286,166	25.93	27.14	18%
Retail / Other Total	220,904	20.02	20.95	14%
<i>Clothing</i>	159,078	14.42	15.09	10%
<i>Other Retail</i>	61,826	5.60	5.86	4%
Vehicle Operations	136,314	12.35	12.93	8%
Vehicle Rental	16,006	1.45	1.52	1%
Public Transportation	29,750	2.70	2.82	2%
Local Transportation	9,039	0.82	0.86	1%
Total	1,630,358	\$147.76	\$154.65	100%
Average Size of Travel Party		1.7		

Notes:

Original survey data (unadjusted)

C. J. Law & Associates adjusted data

italics

(1) CPI for August 2010 = 116.7 divided by CPI for 2007 = 111.5 = 1.05

Sources: *Niagara Regional Tourism Profile, 2007, Niagara Economic Development Corp; C. J. Law & Associates, LLC (based Statistics Canada, Travel Survey of Residents of Canada and International Travel Survey)*

Exhibit 17
Niagara Region, Ontario - Per Person Visitor Spending by Category, 2007
(per person per VISIT)

Overnight Visitors (Note 1)

Expenditure Category	Overnight Visitors (\$ 000s)	Per Person per Trip 4,522,000	Inflated to \$ 2010 1.05	Per Person per Day 10,178,000 2.25	% of Total 41%
Accommodation	437,182	96.68	101.19	\$42.95	35%
Food & Beverage Total	348,455	77.06	80.65	\$34.24	28%
<i>At Restaurants / Bars</i>	283,962	62.80	65.72	\$27.90	23%
<i>At Stores</i>	64,494	14.26	14.93	\$6.34	5%
Recreation / Entertainment	192,027	42.47	44.45	\$18.87	15%
Retail / Other Total	143,924	31.83	33.31	\$14.14	12%
<i>Clothing</i>	107,043	23.67	24.78	\$10.52	9%
<i>Other Retail</i>	36,881	8.16	8.54	\$3.62	3%
Vehicle Operations	75,296	16.65	17.43	\$7.40	6%
Vehicle Rental	15,952	3.53	3.69	\$1.57	1%
Public Transportation	23,494	5.20	5.44	\$2.31	2%
Local Transportation	7,950	1.76	1.84	\$0.78	1%
Total	1,244,280	\$275.16	\$287.99	\$122.25	100%
Average Nights in Niagara Region, Ontario		2.25			
Average Size of Travel Party		1.7			

Notes:

Original survey data (unadjusted)

C. J. Law & Associates adjusted data

italics

(1) Includes ALL overnight travelers not just tourists (53% in roofed commercial lodging, 32% in private residence/cottage, 15% other).

(2) CPI for August 2010 = 116.7 divided by CPI for 2007 = 111.5 = 1.05

Sources: *Niagara Regional Tourism Profile, 2007, Niagara Economic Development Corp; C. J. Law & Associates, LLC*
(based Statistics Canada, Travel Survey of Residents of Canada and International Travel Survey)

Exhibit 18
Niagara Region, Ontario - Per Person Visitor Spending by Category, 2007
(per person per VISIT)

Daytrip Visitors

Expenditure Category	Day Trip Visitors (\$ 000s)	Per Person per Trip 6,512,000	Inflated to \$ 2010 1.05	% of Total 59%
Accommodation	0	0.00	0.00	0%
Food & Beverage Total	146,542	22.50	23.55	38%
<i>At Restaurants / Bars</i>	120,896	18.57	19.43	31%
<i>At Stores</i>	25,645	3.94	4.12	7%
Recreation / Entertainment	94,139	14.46	15.13	24%
Retail / Other Total	76,980	11.82	12.37	20%
<i>Clothing</i>	52,035	7.99	8.36	13%
<i>Other Retail</i>	24,945	3.83	4.01	6%
Vehicle Operations	61,018	9.37	9.81	16%
Vehicle Rental	54	0.01	0.01	0%
Public Transportation	6,256	0.96	1.01	2%
Local Transportation	1,089	0.17	0.18	0%
Total	386,078	\$59.29	\$62.05	100%
Average Size of Travel Party		1.7		

Notes:

Original survey data (unadjusted)

C. J. Law & Associates adjusted data

italics

(1) CPI for August 2010 = 116.7 divided by CPI for 2007 = 111.5 = 1.05

Sources: *Niagara Regional Tourism Profile, 2007, Niagara Economic Development Corp; C. J. Law & Associates, LLC*
(based Statistics Canada, Travel Survey of Residents of Canada and International Travel Survey)

Exhibit 19
Atlantic City Visitor Profile, 2008
(average per person spending per VISIT)

Spending Category	Per Person per Trip	All Visitors Inflated to \$ 2010 1.01	% of Total
Gambling	416	421	71%
Food & Beverage	52	53	9%
Shopping	55	56	9%
Entertainment	18	18	3%
Lodging	11	11	2%
Travel	30	30	5%
Total	\$583	\$590	100%
Visitor Profile:			
Average Nights Stayed	2.4	(assumed to be overnight visitors only)	
Average Party Size	2.6		
Average Meals Eaten	2.3		
Overnight Guests	16.2%		
Day Tripper	83.6%		
Arrive by Car or Bus	98.0%		
Primary Purpose of Trip:			
Gamble	81%		
Vacation/Pleasure	6%		
Attend or Work at Convention	6%		
Shopping in Atlantic City	2%		
All Others	6%		

Sources: Atlantic City Visitor Profile 2008, Spectrum Gaming Group; C. J. Law & Associates, LLC
 (based on survey of 3,099 Atlantic City visitors)

Exhibit 20
Atlantic City Visitor Profile, 2008 - By Segment
(average per person spending per VISIT)

Spending Category	Per Person per Trip	Overnight Visitors		% of Total
		Inflated to \$ 2010	Per Person per Day \$ 2010	
		1.01	2.40	
Gambling	760	769	320	63%
Food & Beverage	130	131	55	11%
Shopping	128	129	54	11%
Entertainment	50	51	21	4%
Lodging	66	67	28	6%
Travel	64	65	27	5%
Total	\$1,198	\$1,212	\$505	100%

Visitor Profile:
Average Nights Stayed 2.4
Average Party Size 2.8

Spending Category	Per Person per Trip	Day Trip Visitors		% of Total
		Inflated to \$ 2010	Per Person per Day \$ 2010	
		0.00		
Gambling	272	275	same as per trip	23%
Food & Beverage	46	47		4%
Shopping	47	48		4%
Entertainment	24	24		2%
Lodging	0	0		0%
Travel	23	23		2%
Total	\$414	\$419		35%

Visitor Profile:
Average Nights Stayed 0.0
Average Party Size 2.8

Sources: Atlantic City Visitor Profile 2008, Spectrum Gaming Group; C. J. Law & Associates, LLC
(based on survey of 3,099 Atlantic City visitors)

Exhibit 21
Oklahoma Casino and Racino Visitors, 2008
(average per PARTY expenditure per TRIP)

Spending Category	Per Party per Trip	All Visitors	
		Inflated to \$ 2010	Per Person per Trip
		1.01	Assume 2 people
Betting Wagering	180.88	182.96	91.48
Accommodation	144.64	146.30	73.15
Transportation	49.72	50.29	25.15
Fuel Expense	30.25	30.60	15.30
Tolls Expense	7.17	7.25	3.63
Food & Beverage Expense	34.00	34.39	17.20
Groceries Expense	28.21	28.53	14.27
Souvenir Expense	47.00	47.54	23.77
Other Non-Food Expense (1)	53.59	54.21	27.10
Entertainment Expense (2)	103.66	104.85	52.43
Miscellaneous	61.05	61.75	30.88
Total	\$740.17	\$748.67	\$374.33

Visitor Profile:

Number of nights stayed	None 83%, One 9%
Type of Party	Couples without children 57%
	Three+ adults without children 24%
	One adult without children 17%
Average distance traveled	55 miles
Non-casino/racino activities engaged in	None 63%; Shopping 15%

Notes:

Original survey data (unadjusted)
C. J. Law & Associates adjusted data

italics

(1) clothes, medicines, other retail items; (2) includes conference fees
(2) Professionally conducted online consumer survey with 590 usable responses

Sources:

Trip Characteristics of Casino and Racino Visitors in Oklahoma,
by Sheila Scott-Halsell, Radesh Palakurthis, Greg Dunn, and Wanlanai Saiprasert
C. J. Law & Associates, LLC

Exhibit 22
National Park Visitor Spending in the Local Area by Segment, 2008
(\$ per PARTY per day / night)

Spending Category	Local Day Trip		% of Total		Non-local Day Trip		Visitor Segment		Overnight - Motel Outside Park		% of Total
	Local Day Trip	% of Total	Non-local Day Trip	% of Total	Local Day Trip	% of Total	Overnight - Motel Outside Park	% of Total			
Motel, hotel, B&B	0.00	0%	0.00	0%	113.29	0%	113.29	45%			
Restaurants & bars	12.71	31%	20.88	31%	57.41	28%	57.41	23%			
Amusements/entertainment	4.09	10%	8.81	10%	17.88	12%	17.88	7%			
Souvenirs	8.30	20%	14.35	20%	25.47	19%	25.47	10%			
Groceries	6.30	15%	7.76	15%	13.33	10%	13.33	5%			
Gas & oil	8.94	22%	22.05	22%	21.25	29%	21.25	8%			
Local transportation	0.52	1%	1.28	1%	3.08	2%	3.08	1%			
Total	\$40.86	100%	\$75.13	100%	\$251.71	100%	\$251.71	100%			30%
Inflated to 2010 \$ using CPI											
			1.0115								
Motel, hotel, B&B	0.00	0%	0.00	0%	114.59	0%	114.59	45%			
Restaurants & bars	12.86	31%	21.12	31%	58.07	28%	58.07	23%			
Amusements/entertainment	4.14	10%	8.91	10%	18.09	12%	18.09	7%			
Souvenirs	8.40	20%	14.51	20%	25.76	19%	25.76	10%			
Groceries	6.37	15%	7.85	15%	13.48	10%	13.48	5%			
Gas & oil	9.04	22%	22.30	22%	21.49	29%	21.49	8%			
Local transportation	0.53	1%	1.29	1%	3.12	2%	3.12	1%			
Total	\$41.33	100%	\$75.99	100%	\$254.60	100%	\$254.60	100%			30%

Number of All Visitors System-Wide 274.9 million
Average Party Size System-Wide 2.6
Ranges from 2.0 to 3.0 across parks and visitor segments.

Notes:

- (1) Non-local day trips are those originating from 50 miles or more and also include those staying with friends or relatives and visiting parks.
- (2) Based on calendar year 2008 park visits and spending averages from park visitor surveys.

Sources:

National Park Visitor Spending and Payroll Impacts 2008, Daniel J. Stynes, Michigan State University, 2009.
C.J. Law & Associates, LLC

**Competitive Restaurant Supply
Downtown Niagara Falls, New York**

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
Caffe Lola	507 3rd Street, Niagara Falls, NY (map)	716-282-LOLA	www.caffelola.com	Tues and Wed Lunch only/ Wed-Sat Lunch and Dinner Closed Sunday and Monday	Casual Café Fare	37	aps 7-9 Ent 12-15	\$100-120k	This is a small bistro/sandwich shop located directly next to Wine on Third. The space has an open kitchen with a counter top where the cooks serve the items. Guests come to the counter to order and the chef prepares the item and delivers tableside. The restaurant is BYOB.
Wine on Third	501 Third Street, Niagara Falls, NY 14303	716.531.3266	www.wineonthird.com	Dinner only 4-10 Closed Sunday	Wine bar tapas	12 Seats at bar + 22 seats on the wine side, Then separate dining room with an additional 28 seats	Aps 7-14 Ent 20 -35 Tapas 9-14 Wine	\$500-550k/year	Two separate spaces. Wine bar main room with small couches and two top tables along the wall. This side of the restaurant has large chalkboard with wine and beer list. Tapas only served on this side. Separate dining room has 28 seats and serves a completely different menu. Tables typically turn twice Wed-Sat and once Sun-Tues.
Denny's	433 Main Street, Niagara Falls, NY	(716) 284-2501	www.dennys.com	24 hours	Diner	156	Breakfast 6-11 Aps 5-10 Ent 10-14	N/A	Typical Denny's layout but located inside the Day's Inn. Operated 24 hours a day and serve diner food. The store is operated by the Days Inn management staff.
Hard Rock Café	333 Prospect Street, Niagara Falls, NY	716) 282-0007	www.hardrockcafe.com	daily 11am - 12 am	Burgers american	256	\$24 avg check	\$4.2M	This is one of only chain type restaurants on the NY side of downtown Niagara. The closest restaurant to the border and are the typical Hard Rock Cafe decor and atmosphere. There are three separate dining rooms and a larger bar area with seats. The restaurant also has a small stage with live music acts throughout the week. When used for music the space can hold 450 SRO. Currently have approximately 70 events a year with several large national bands performing outdoors (10,000) about six times a year. The retail accounts for approximately 30% of sales. When originally opened 1996 the store did just under \$9M in sales. The following year the Ontario casino with a competing Hard Rock Cafe opened and sales dropped significantly. Currently trending upwards but nowhere near the same volume.
Kohinoor (In the Econolodge)	200 Rainbow Blvd Niagara Falls NY	(716) 284-2414	www.econolodgeinNiagaraFalls.com	Lunch Buffet - 11:30 PM to 2:30PM Dinner 5:30-10:30 Sun/Thurs and until 11pm Fri/Sat	Indian Buffet	98	Aps 5-8 Ent 12-22 Buffet \$13-17	\$190-220k/year	This restaurant is located in the Econolodge and has received many poor reviews on several food sites. There is a permanent buffet setup which is available for both lunch and dinner. Closed seasonally Nov-March 15th. Covers per week range from 100 in the off-season to 1100 in the peak season.
Legends (In Quality Inn)	240 First Street, Niagara Falls, NY 14303	(877) 282-1212	qualityinnNiagaraFalls.com	Breakfast lunch and dinner - 7:30am - 10 pm and til 12am Fri/Sat	Pub fare	150 seats (75 full tables and 75 bar tables and seating) there is an additional 45 seats outside	Aps 6-10 ent 11-21 Avg Check \$10	\$1.2 M	This restaurant is located inside the Quality Inn. It has the feeling of a sports bar on one side and additional seating on the other. This area is also used for the hotel breakfast service which accounts for 70% of the revenue. The space has pool tables and dart boards and live music on Saturday nights. Much of the business comes from large tour groups at breakfast. Over 1000/breakfast covers a week for the breakfast buffet. The restaurant also has a small cigar bar/smoking area which does not serve food or beverage.

**Competitive Restaurant Supply
Downtown Niagara Falls, New York**

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
Maharaja	128 3RD ST, Niagara Falls, NY 14303	(818) 512-7403	nfmaharajarestaurant.com	Serves breakfast lunch and dinner 7:30-9pm 7 days a week	Indian Buffet	52 seats and 10 outdoor	\$8-18 with buffet costing \$14	\$75k-\$90k	This is an Indian restaurant that was once an old home. Converted the living room into a dining room with 52 poorly maintained tables with red metal chairs. There is a buffet station which is always setup. During the slow months they do not offer the buffet and guests are served from the menu. During the slow months they do approx. \$800-1000/wk in sales and during the busy season this gets as high as \$3,000/wk. This gets the best reviews of the Indian restaurants in the downtown Niagara area. Closed from the end of November until April.
Murphy on Third	250 Rainbow Boulevard, Niagara Falls, NY 14303	(716) 205-8341		7am to 9pm x 7days a week	Brunch and Sandwiches	34	\$5-9	N/A- too small	This a small coffee sandwich place located inside the Jefferson Apartment building. There are two levels with 24 seats downstairs and a loft with 10 additional seats and two small sofas. An all day menu the majority of the business during breakfast.
Old Falls Bar and Grille	300 Third Street Niagara Falls, NY	716-285-3361	sheron.com	11am to 10 pm and 12am Fri/Sat	Pub Fare	96 seats + 17 bar stools + 14 couch seats	Aps 6-10 Ent \$10-20	N/A	Old Falls is the sports pub inside the former Crowne Plaza (now a Sheraton). It has a large bar and several high top tables. Features typical bar food with burgers, nachos and wings. Room has a large projection TV and several overstuffed couches to watch the game. The restaurant also has several video games and dart boards. Restaurant is currently being renovated as a 174-seat franchised TGI Fridays, expected to open in early summer 2011.
Peppertree (Holiday Inn)	114 Buffalo Avenue, Niagara Falls, NY 14303	(716) 285-2521	holidayinn.com	6am-11am and 5pm- 10pm (Breakfast and Dinner only)	American Fusion	93 seats + 18 at bar	\$15-20 avg check	\$1-1.5M per year	This is the Holiday Inn restaurant. Features a separate bar/lounge area with 10 seats at the bar and 3 high tops with seating for 8. Recently revamped their menus, hired a new chef and are about to start a new restaurant campaign in the area. Currently there is no signage outside the hotel directing guests inside. The restaurant is laid out with booths all around the perimeter and a large buffet in the center towards the rear which is utilized for breakfast and special functions only. Off-season they do approx 150 covers/week in season 500-600/week. Off-season they do approx \$400k. This revenue coming solely from hotel guests.
Red Coach Inn	2 Buffalo Avenue, Niagara Falls, NY 14303	(716) 282-1459	redcoach.com	7:30am - 11:30 pm x 7 days	Upscale Casual American	72 inside with an additional 32 outside	\$38-42 average check \$20 average check at lunch.	\$1.5M per year	This restaurant sits inside of the small Red Coach Inn. The setting is warm and cozy with large wooden features. There is a small eight seat bar and three separate dining rooms. Two of the dining rooms are inside and there is one seasonal outdoor seating area. The owner said that the market has the perception that the restaurant is too expensive or already closed. One of the better restaurants in the area in terms of food and quality. The Inn generates about \$3M in sales with half coming from F&B.

Competitive Restaurant Supply
Downtown Niagara Falls, New York

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
Villella Ristorante (Super 8)	795 Rainbow Boulevard, Niagara Falls, NY 14303	(716) 284-9778	super8.com	Noon - 10pm x 7 days	Casual Italian	35	Appetizers \$6-\$10 Entrees \$13-\$22	\$250-300k	Small Italian restaurant inside the Super 8 Motel. There is a open kitchen with a service counter. The space has a liquor license and serves a variety of wines and beers. Currently do 80% of their business during the busy season with 45-60 covers a day during the peak season and 25 covers a day during the slower periods.
Top of the Falls restaurant	Niagara Falls State Park	(716) 278-0337	www.niagarafallsstatepark.com	Seasonal. Weekends only in May and September. 7 Days a week from Memorial Day – Beginning of September. Closed end of September/ early October depending on the weather.	American Continental	92 seats inside, two outdoor decks seating a total of 100	Appetizers \$6-\$12 Entrees \$11-\$26	N/A	Revenue centers consist of food and beverage, concessions and retail, and do a total of \$7 million per year. Manager declined to disclose the food and beverage portion of the total. Concessions at the park consist of typical "amusement park" items which are served in a variety of methods including mobile carts, semi-permanent stands, and two permanent units inside the visitors center which consist of a coffee bar and a grill/deli. The concessions also operate longer into the tourist season compared to the actual restaurant.

**Competitive Restaurant Supply
"Little Italy", Niagara Falls, New York**

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
Mii Restaurant	1715 Pine Avenue, Niagara Falls, NY	716) 285-0656		10:30am - 9pm and till 10pm Fri-Sat	vietnamese	64	Avg Check \$13	\$330k-450K/year	Small Vietnamese restaurant with bar area, but no liquor license. Have been open for about a year, and receive good reviews. They do about 100-150 lunch covers a week, 30-50 dinner covers during the week and 75-120 covers Friday and Saturday. Because they are on pine they are less seasonal and draw from a more local crowd.
La Hacienda	3019 Pine Avenue Niagara Falls, New York	(716) 285-2536	www.lahaciendainv.com	Dinner only 4-11 closed Tuesday	Casual Italian	138	Aps 5-10 Ent 12-25	\$1.1M-1.3M	Neighborhood Italian bar/restaurant. Small bar area with only 8 seats; do not allow customers to eat food at bar. Bar area has booths and seating for 32. There are two entrances and the second entrance leads directly to the back dining room. The back room has 100 seats. This place is busy on the weekends and is known for pizza. Cash only. Typically do 250-300 covers each weekend and 80 each weekday. They are not very seasonal and get a lot of locals.
Pete's Market House Restaurant	1701 Pine Avenue, Niagara Falls, NY 14301	(716) 282-7225		11am - 11 pm close at 9:30 Sunday	Casual Steakhouse	54 seats + 12 @bar	Aps 5-9 ent 10-25	N/A	Small local bar with 54 seats in the back for dining. The bar is beat up a little with police badges plastered all over the walls. Previously used upstairs room for additional dining and large parties but have recently stopped. On the weekends they have piano player.
Fortuna's	827 19th St., Niagara Falls, NY	716) 282-2252	www.fortunastalianusa.com	Lunch Friday and Sun - Closed Mon and Tues	Italian family style	220	Aps 6-10 Ent 15-26	\$800K-1.1M	Family operated Italian kitchen since 1945. Restaurant is tastefully decorated and has 130 seats downstairs and a 90 seat upstairs area which is used for additional seating and private parties. The owner said that since they are not in downtown that their business is much more steady and draws from a more local crowd. Covers range from 500-700/week with an average check of approximately \$29.
Como Restaurant	2220 Pine Avenue, Niagara Falls, NY	716) 285-9341	comorestaurant.com	10:30am - 10pm and 10:30 Fri/Sat	Italian casual	145 in dining room + 30 in bar +12 Bar stools		\$3.5-4M	This is the oldest and most popular Italian restaurant in the Little Italy section of Niagara Falls NY. They have been open since 1927 and have expanded three times. The space contains a large dining room, separate bar and lounge, four banquet rooms, a catering operation, and full service deli. The banquet space has seating in all rooms up to 650 guests. Breakdown is approx 40% dining, 40% deli, 20% banquet. Approximately 2000-2500 covers per week. Approximately 25% of the business is Canadian, especially when exchange rates are par.
Michaels	3011 Pine Ave Niagara Falls NY	716-282-4043	michaelsniagarafalls.com/	11am - 11 pm	Casual Italian, Large Portions	95	Aps 4-6 Ent 9-13	N/A	Setup like a diner with booths. No liquor license.

**Competitive Restaurant Supply
Outlet Mall Market, Niagara Falls, New York**

EXHIBIT 25

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
Applebee's	1608 Military Rd., Niagara Falls, NY (map)	(716) 298-1085	www.applebees.com	10:30am - 10 pm	American	163	Avg Lunch \$10, Avg Dinner \$20	\$3.2M - 3.5M	This restaurant is the busiest out of the three in the area. Have seen an increase in business after the Super Walmart was remodeled a year ago. They did over \$4 million a few years ago but are currently down from that mark, but are now trending upwards.
Chili's	1536 Military Road, Niagara Falls, NY	(716) 297-7326 (1)	chilis.com	10:30am - 10 pm	American Tex Mex	185	Aps 7-10 - Ent 12-19	\$2.5-2.7M	They are located near Applebee's. They have been open for 1.5 years and manager said they are the top of the four Chili's in the area. Most of the business (75%) comes from the Canadians shopping in the area.
Honeys	2002 Military Road, Niagara Falls, NY	716) 297-7900 (1)	http://www.gohoneys.com/Niagara_Falls.html	11am-2am	BBQ sports Bar	90 inside and additional 55 outside	Aps 3-7 Ent 7-12	\$2.2-2.5M	This space has more of a bar feel than the other two restaurants in the immediate area. Focus more on the bar crowd and have several TVs. The manager said they do 2000-2200 covers per week and are not very seasonal. Peak business coincides with shopping and holidays.

Competitive Restaurant Supply
Seneca Casino, Niagara Falls, New York

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
Blues Burger Bar	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	Lunch and Dinner	Casino Burger Bar	102 seats	Burgers 6-9 entrees 9-14	N/A	This is the burger concept inside the casino adjacent to the Bear Den music venue. This is a made fresh burger concept where the customers order at the counter and are given pagers which vibrate when the order is ready. There is no liquor served but is adjacent to a Keno parlor which has bar seats.
Morrie's Express	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	24 hours a day café	Café with takeout coffee and pasterys	44	\$4-7	N/A	Similar to a Starbucks. Have a display case with pastries and pre-made sandwiches for quick and easy take away. There is a small seating section with high tops.
Thunder Falls Buffet	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	9-11am Breakfast, 11-3:30 Lunch, 4-10 Dinner	100+ item buffet	480	Breakfast 10, lunch 14, dinner 21	N/A	This is the large 3 meal buffet near the shopping corridor of the casino and directly below the Western Door Steakhouse. Customers check in and are given times that they can return to enter the buffet.
Three Sisters Café	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	24 hour 3 meal restaurant	American diner	318 (18 of which are at the bar)	Aps 7-12 Ent 12-21	N/A	The 24 hour 3 meal sit down restaurant. They have an American menu that has a very wide array of items. There is a small bar located at the entrance of the restaurant.
Koi & Koi Noodle Bar	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	Noodle bar 11am - 12am Sun- Tuesdays, Closed WED and THURS Fri and Saturday 11am -2am. KOI Dinner only 5pm - 10pm. Closed WED and THURS	Asian with sushi and Noodle Bar	112 +18 bar seats	Noodle bar 8-10 Ent 15-40	N/A	This restaurant is joined with La Cascata and has a separate 18 seat noodle bar. There is an open kitchen and several large tables in front for seating of large parties.
La Cascata	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	CLOSED MON and TUES, WED/THURS/SUN 4pm-10pm, FRI/SAT 5pm-10pm	Fine dining Italian	113	Aps 6-10 Ent 15-35	N/A	La Cascata and Koi share a common host stand and the entrance to the restaurant is located inside KOI. This restaurant runs along the right side of the joined space and is more formal than Koi.
Western Door Steakhouse	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	5-10pm 7days a week	Fine Dining Steakhouse	182	\$70 average check	N/A	This is the casino's premier steakhouse and is situated directly above the buffet. There is a separate wine lounge (30 seats) prior to entering the restaurant which is used for seating as well. The kitchen is open and displays the variety of steak cuts. There is also an 18 seat bar as you enter to your left.

**Competitive Restaurant Supply
Clifton Hill, Niagara Falls, Ontario, Canada**

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
Rainforest Café	5785 Falls Avenue, Niagara Falls, ON	905-374-2233	http://www.rainforestcafe.com	10:30-10 pm and 11 pm on weekends	American Chain Concept	350	Aps 9-12 Ent 14-27	\$4-5 M	Rainforest Café at the base of Clifton Hill. There is a small bar area which serves as a waiting place for people with reservations.
Beef Baron	5019 Centre Street, Niagara Falls, ON	905-356-6110		Closed Monday and Tuesday then from 4:30-10	American Steakhouse	225	Avg Check \$35	\$830-900K/year	Revenues are approximately \$30K/week in season and \$9K/week out of season. Located across from the Casino Niagara complex at the top of Clifton Hill, this restaurant has won the Family Restaurant of the Year award three times. The decor is filled with dark wood, high ceilings and formal settings. Continental dinner menu.
Sandstone Grillhouse	5467 Victoria Avenue, Niagara Falls, ON	905-354-7225	sandstonegrillhouse.com	11am - 2am and 3pm-2am Sat/Sun	Italian/Steakhouse Casual Fine Dining	112 +10 at the Bar + 20 outside	Avg Check \$30	\$900K/year	Independent restaurant up the hill. Cozy interior with table clothed tables and fireplace. Small bar on the right side of the restaurant and small outdoor seating area during the season.
Kelseys	4958 Clifton Hill, Niagara Falls, ON	905-353-0051	www.kelseys.ca	11am -1 am and 11am -2am Fri/Sat	Canadian Version of Applebees	240 inside and 70 outside	Aps 6-12 Ent \$12-25	\$4M/year	This is an Applebee's knockoff located at the top of Clifton Hill. The location looks and feels identical to Applebee's even to the point that they say that they are a neighborhood restaurant.
Planet Hollywood	4608 Bender Street, Niagara Falls, ON	905-374-8332	niagarafallsplanet.hollywood.com	12-8pm and 12-10 pm weekends	California inspired concept	400 inside and 50 outside	Average check \$37	\$4.75-5.5M	Planet Hollywood at the top of Clifton Hill. During the season they do 500 covers/day during the week and 900-1000/weekend nights. Off season they do approx 180 covers/weekday and 350/weekend.
Ruby Tuesday	4943 Clifton Hill, Niagara Falls, ON	905-357-4330	www.rubytuesday.com	11am-12 and 11-1am weekends	American chain concept	150 inside + 150 outside	Aps 6-12 Ent \$12-25	\$4.8-5.1M	This is located inside the TravelLodge Hotel on Clifton Hill. Have a large outdoor patio which doubles seating capacity during the summer months. Achieved almost half of their total revenue in June.
Dave and Busters	4955 Clifton Hill, Niagara Falls, ON	905-371-1331	daveandbustersniagarafalls.com	11am - 2 am	Bar food and Arcade	300	Aps 9-12 Ent 14-22	\$4.5 - 6M/year in F&B	This is a 40,000 square foot operation with 3 floors and contains several areas other than the F&B operation, including extensive amusement facilities. Two of the floors contain F&B space and bar facilities. Approximately half of their revenue comes in the summer months with July and August being the busiest and slowing down completely after mid to late October.
Boston Pizza	4848 Clifton Hill, Niagara Falls, ON	905-358-2750	www.bostonpizza.com	11am - 2 am	American Chain (Pasta and Pizza)	550	Aps 8-12 Ent 13-18	\$6.9-7.1M	Boston Pizza is a huge operation located in the middle of Clifton Hill. This specific Boston Pizza is not typical of the chain and is themed more like a Dave and Busters with arcade games and a ten lane bowling alley in the rear. The space itself has over 550 seats with a huge center bar area with dozens of TVs. This is the local favorite sports bar in the area. The restaurant also has a separate 30 seat bar in the rear which mainly services the bowling alley. The maximum capacity of the space is 1091 people. Stated revenues do not include amusement revenue.
Mama Mia	5719 Victoria Avenue, Niagara Falls, ON	905-354-7471	http://www.urbanspoon.com/r/242/1289278/restaurant/Ontario/Mama-Mia-Niagara-Falls	11-10 pm	Casual Italian	150	Aps \$6-11 Ent \$15-25	\$1.2-1.5M	Typical Italian family restaurant, with red and white checkered vinyl table cloths. The bar is located as you enter the restaurant but has no seats and is used solely as a service bar.

Competitive Restaurant Supply
Clifton Hill, Niagara Falls, Ontario, Canada

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
Remingtons	5657 Victoria Avenue, Niagara Falls, ON	905-356-4410	remingtonsniaagara.com	4-10pm and 4-11 on weekends	Steak and Seafood	205	avg check 45	\$3-3.3M	A fine dining American-style steakhouse. There are several leather booths and nice wooden tables. There is a large 20 seat bar along the back wall. The inside is meant to feel like a lodge with antlers and wood and stone finishes. The manager said they are fairly consistent and do about 2000 covers/week during the summer and about 1000-1200/week during the slow season.
Applebees (Closed)	Closed	Closed	Closed	Closed	Closed	Closed	Closed	N/A	Closed
Montana's Cook House	5759 Victoria Avenue, Niagara Falls, ON	905-356-7427	montanas.ca	11am - 2 am	Chain Steak and seafood house	150 + additional 20 people outside	Avg check \$26	\$2.9M-3.2M	Similar to an Outback Steakhouse. The outside has wooden finishes and the booths are made to look like they were made from large rounded logs. They have a smaller ten seat bar in a separate area on the left and additional seating in that area for 40. This is located on the top of Clifton Hill. The manager said they typically do 2050 covers/week in season and approx 900/week out of season.
TGI Fridays	5940 Victoria Avenue, Niagara Falls, ON	905-357-4774	tginiaagara.com	11am - 2 am	Casual American	375 with additional 50 outside seats	Avg check \$25	\$2-3M	Manager said that during the season they do 400-500 covers/day and 600-800 on each weekend night. Out of season they do 50-60/day and 400-450/weekend night.
The Keg Steakhouse and Grill	5950 Victoria Avenue, Niagara Falls, ON	905-353-4022	kegsteakhouse.com	12 - 1am	Steakhouse	365	Avg Check \$40	\$4.5-4.9M	This is a nice fine dining steakhouse which is located inside the Courtyard By Marriott. There are two entrances: one from the street and one from the hotel lobby. The lobby entrance leads directly into the bar area which has a different feel from the rest of the restaurant. The 15 seat bar area has several TV's and contains a more casual 30 seat dining area. The rest of the space has a nice cozy feel with stone walls and working gas fireplaces. The manager explained that during the season they would do approximately 3000-3500 covers a week and off season they would do 1700-1900/week.
Hard Rock Café	5705 Falls Avenue, Niagara Falls, ON	905-356-7625	www.hardrockcafe.com	11-2am daily	Burgers american	570 + separate room for DJ and Dancing	Avg Check \$30	\$8.2M	Located close to the Canadian entrance to the Rainbow Bridge. Unlike the US Hard Rock, the Canadian side does not have live music; instead they utilize a separate café which holds 300 SRO and play DJ and dance music during the evenings.

**Competitive Restaurant Supply
Fallsview, Niagara Falls, Ontario, Canada**

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
TGI Fridays	6700 Fallsview Boulevard, Niagara Falls, ON	905-356-8523	tgifniagara.com	11 am - 2 am	Casual American	460	Avg check \$25	\$4-5M	
The Keg Steakhouse and Grill	6700 Fallsview Boulevard, Niagara Falls, ON	905-374-5170	www.kegsteakhouse.com/en/locations/ON/niagara-falls/fallsview-keg	noon - 11:30 and 12am on weekends	Steakhouse	550	Avg Check \$50	\$9M	Located inside the Embassy Suites on the 9th floor overlooking the falls. The largest dining room on the falls. Manager said they typically do approximately 5000 covers/week during the season and 3000 covers/week during the off season.
Copacabana Brazilian Steakhouse	6671 Fallsview Boulevard, Niagara Falls, ON	905-354-8775	copacabana.ca	5 pm - Midnight	Brazilian Steakhouse	180 with an additional 100 outdoor patio	Avg Check \$45	\$5.9 - 6.3M	Friday and Saturday night Samba dancers. Manager said they typically do 4300 covers/week during the season and 1800 covers/week during the off season.
Minolta Towers (Pinnacle Restaurant)	6732 Fallsview Boulevard, Niagara Falls, ON	905-356-1501	http://www.pinnacleteniacara.com	5pm - 10 pm or last guest	Fine Dining American	180	Average \$100	\$5.1-5.3M	Manager said they typically do approximately 2100 covers/week during the season and 450 covers/week during the off season.
Canyon Creek Steakhouse	6380 Fallsview Boulevard, Niagara Falls, ON	905-354-0030	www.canyoncreeksteakhouse.com	4-12am and 12-12 weekends	Casual Fine dining steakhouse	300 +17 on patio	40	\$3.8-4.1M	This is a casual steakhouse located in the Fallsview Casino overlooking the falls. They have a nice bar and large selection of wines by the glass. The interior is wood and has a casual feel.
Skylon Tower	5200 Robinson Street, Niagara Falls, ON	905-356-2651	skylon.com	11:30 - 10 pm	Fine dining and Buffet	600 total (two 300 seat dining rooms)	Avg Check lunch 45 dinner 70	\$14-15M	This is the top of Skylon Tower, which is one of the major attractions in Niagara Falls. The restaurant boasts two separate dining rooms. The top floor is a 300 seat fine dining restaurant with average checks of \$45 lunch and \$70 dinner. The restaurant rotates throughout the meal. There is also a more casual 300 seat buffet room one floor below with prices at \$40 per person. During the summer they will do approx 1500 covers a day. The manager explained that during the summer they average \$600-\$700K per week in sales. During the off season they close the one dining room (Buffet) and do about 600 covers a week.

Live Entertainment Supply
Niagara Falls, New York

EXHIBIT 29

Name	Address	Phone	Website	Hours	Cuisine	Seats	Average Prices	Revenue	Comments
The Rapids Theatre	1711 Main Street Niagara Falls NY	716-205-8925	www.rapidsitheatre.com	N/A	Live music venue	1700 SRO	33 events last year @ \$15-45/ticket	\$800-900K	This is the only live music venue other than the Hard Rock café in downtown Niagara Falls NY. The entertainment space is approximately 9,000 sqft and the building is 19,000 sqft in total. A few catering events and weddings are booked to supplement income, although there is no kitchen. The entertainment space has bars on the main floor and balcony level.
Casino - Bear Den	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	N/A	Live music Venue	480 stadium seating			
Casino - Event Center	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	N/A	Live music Venue	2000			This is the large event center where the majority of the major attractions perform.
Casino - Club 101	310 Fourth Street, Niagara Falls, NY (map)	(877) 873-6322	www.senecaniagaracasinocom	N/A	Bar only	96 seats	Cocktails 5-12		This is a round bar in the center of the gaming room. There is a small stage where live music is played on a nightly basis. The inner bar has keno at each of the seats and the outer ring has bar stools.



Exhibit 30

Retail MarketPlace Profile

5 MI Radius - US Only
 Area: 72.31 Square miles
 Custom Polygon

Summary Demographics
 2010 Population 87,361
 2010 Households 36,362
 2010 Median Disposable Income \$35,767
 2010 Per Capita Income \$23,846

Industry Summary	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap (Demand - Supply)	Surplus / Leverage Factor	Number of Businesses	Retail Potential SF
Total Retail Trade and Food & Drink (NAICS 44-45, 72)	\$763,402,514	\$802,911,075	-\$39,508,561	-2.5	720	\$400
Total Retail Trade (NAICS 44-45)	\$46,573,544	\$749,999,853	-\$102,996,309	-7.4	489	(257,491)
Total Food & Drink (NAICS 72)	\$116,828,970	\$53,341,222	\$63,487,748	37.3	231	

Industry Group	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap (Demand - Supply)	Surplus / Leverage Factor	Number of Businesses	Retail Potential SF
Motor Vehicle & Parts Dealers (NAICS 441)	\$164,771,830	\$50,214,571	\$114,557,259	44.0	58	
Automobile Dealers (NAICS 441)	\$131,562,850	\$43,289,142	\$88,273,708	30.3	20	
Other Motor Vehicle Dealers (NAICS 4412)	\$13,726,451	\$12,480,496	\$1,245,955	4.3	14	
Auto Parts, Accessories, and Tire Stores (NAICS 4413)	\$8,482,529	\$4,444,933	\$4,037,596	36.2	24	
Furniture & Home Furnishings Stores (NAICS 442)	\$19,366,509	\$3,710,969	\$15,645,540	67.8	17	39,115
Furniture Stores (NAICS 4421)	\$10,010,543	\$1,235,442	\$8,775,101	78.0	4	
Home Furnishings Stores (NAICS 4422)	\$9,345,966	\$2,475,527	\$6,870,439	38.1	13	
Electronics & Appliances Stores (NAICS 443/NAICS 4431)	\$22,373,994	\$3,417,052	\$18,956,942	73.3	23	47,392
Big Market, Goods, Equip. & Supply Stores (NAICS 444)	\$27,840,091	\$13,296,363	\$14,544,728	33.4	32	36,362
Building Material and Supplies Dealers (NAICS 4441)	\$24,969,193	\$12,672,333	\$12,296,860	32.7	26	
Lawn and Garden Equipment and Supplies Stores (NAICS 4442)	\$2,880,898	\$623,030	\$2,257,868	64.1	6	
Food & Beverage Stores (NAICS 445)	\$123,720,822	\$19,962,577	\$103,758,245	21.5	38	109,346
Grocery Stores (NAICS 4451)	\$111,449,609	\$14,400,045	\$97,049,564	19.9	22	92,624
Specialty Food Stores (NAICS 4452)	\$9,895,998	\$1,206,472	\$8,689,526	52.6	9	
Beer, Wine, and Liquor Stores (NAICS 4453)	\$9,385,645	\$4,376,060	\$4,009,585	31.4	7	10,024
Health & Personal Care Stores (NAICS 446/NAICS 4461)	\$25,367,536	\$10,619,780	\$14,747,756	41.0	40	36,919
Gasoline Stations (NAICS 447/NAICS 4471)	\$103,977,228	\$26,063,820	\$77,913,408	35.9	22	
Clothing and Clothing Accessories Stores (NAICS 448)	\$33,823,126	\$23,699,940	\$10,123,186	17.6	103	25,308
Clothing Stores (NAICS 4481)	\$26,236,429	\$17,907,667	\$8,328,762	16.9	67	
Shoe Stores (NAICS 4482)	\$7,580,184	\$3,197,794	\$4,382,390	5.6	19	
Jewelry, Luggage, and Leather Goods Stores (NAICS 4483)	\$4,006,513	\$2,594,479	\$1,412,034	21.4	17	

Industry Group	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Surplus / Leverage Factor	Number of Businesses
Sporting Goods, Hobby, Book, and Music Stores (NAICS 451)	\$6,311,515	\$2,557,562	\$3,753,953	42.3	32
Sporting Goods/Hobby/Musical Instrument Stores (NAICS 4511)	\$3,824,067	\$1,997,769	\$1,826,298	31.4	24
Book, Periodical, and Music Stores (NAICS 4512)	\$2,487,448	\$650,183	\$1,827,265	63.2	8
General Merchandise Stores (NAICS 452)	\$104,492,316	\$609,937,498	-\$495,445,182	-44.0	25
Department Stores Excluding Leased Depts. (NAICS 4521)	\$26,434,296	\$14,787,126	\$11,647,169	31.6	9
Other General Merchandise Stores (NAICS 4529)	\$78,058,020	\$496,150,370	-\$418,092,350	-73.4	16
Miscellaneous Store Retailers (NAICS 453)	\$15,217,603	\$13,605,211	\$1,612,392	5.6	53
Florists (NAICS 4531)	\$1,424,910	\$676,256	\$748,654	42.4	9
Office Supplies, Stationery, and Gift Stores (NAICS 4532)	\$2,730,196	\$2,735,326	-\$5,130	-0.1	31
Used Merchandise Stores (NAICS 4533)	\$476,104	\$666,536	-\$189,434	-2.6	9
Other Miscellaneous Store Retailers (NAICS 4539)	\$10,586,291	\$67,238,089	\$56,651,792	4.2	44
Nonstore Retailers (NAICS 454)	\$6,300,975	\$2,445,420	\$3,855,555	58.4	6
Electronic Shopping and Mail-Order Houses (NAICS 4541)	\$2,475,889	\$45,304	\$2,430,585	56.4	1
Vending Machine Operators (NAICS 4542)	\$383,594	\$1,023,064	-\$639,470	-7.3	4
Direct Selling Establishments (NAICS 4543)	\$6,941,532	\$1,377,052	\$4,564,480	62.4	1
Food Services & Drinking Places (NAICS 722)	\$116,828,970	\$53,341,222	\$63,487,748	37.3	231
Full-Service Restaurants (NAICS 7221)	\$67,746,363	\$21,561,001	\$46,185,362	56.1	136
Limited-Service Eating Places (NAICS 7222)	\$30,616,026	\$25,066,808	\$5,549,217	5.9	56
Special Food Services (NAICS 7223)	\$2,066,024	\$4,534,592	-\$2,468,568	-22.3	8
Drinking Places - Alcoholic Beverages (NAICS 7224)	\$6,600,536	\$2,148,821	\$4,451,717	60.9	30

Data Note: Supply (retail sales) estimates take into account by-estate lines. Sales to businesses are excluded. Demand (retail potential) estimates the expected amount of potential consumer demand at retail establishments. Supply and demand estimates are in units.

Sources: Esri and MapInfo; C. J. Law & Associates, LLC

Exhibit 31

Evaluation of Destination Retail / Restaurant Center Concept Potential, Tourist Study Area, Niagara Falls, NY

Market Segments	Visitor Person Days	Employees	Penetration	Average Expenditure per Visitor	Resulting Sales	Supportable Retail Sq.Ft. \$400	Cumulative Build Sq. Ft.
Overnight hotel guests staying in Niagara Falls, NY (3,241 rooms)	1,670,000						
Downtown Area (2,039 rooms; 473,927 room nights sold; Casino hotel is 43% of RNS)	1,184,818		65%	\$40	\$30,805,268	77,013	
Other Locations	485,182		40%	\$40	\$7,762,912	19,407	96,420
Day Trip Visitors to Niagara Falls, NY, from USA (1)	3,100,000		20%	\$40	\$24,800,000	62,000	158,420
Daytime Employees within 1-mile radius X 235 Work days per year (estimate)		9,655 2,268,925	25%	\$6	\$3,403,388	8,508	166,929
Resident Population							
Initially assumed to be part of daytrip visitors and daytime employees, due to very few other reasons for trips to this area							
Overnight hotel guests staying in Niagara Falls, ON	4,800,000		10%	\$40	\$19,200,000	48,000	214,929
Total					\$85,971,568	214,929	
						Rounded: 200,000 sq.ft.	magnitude

Notes:

(1) Longwoods study estimate

Sources: HVS; C. J. Law & Associates, LLC

Exhibit 32
Retail Spending Benchmarks
Average Expenditures per Visit for Various Retail Types, Locations

Retail Type	Year	Average Spending per Visitor	Inflated to \$2010	Conversion Rate % of Visitors who Purchase	
Fashion Outlets of Niagara Falls USA	Current	\$71	\$71	NA	Note 1
U.S. Shopping Malls	2005	\$91	\$101	NA	Note 2
Canadian Shopping Malls	2009	\$75 (\$ Canadian)	\$77 (\$ Canadian)	NA	Note 3
Specialty Leasing (Mall Kiosks)	2004	\$14	\$16	50%	Note 4
Festival Market Places (restaurant/retail like Faneuil Hall/Quincy Market)	mid-1990s	\$30 - \$50 range	\$43 - \$71 range	20% - 25% range for retail; 50% - 75% for food	Note 5

Notes:

- (1) Based on owner estimates of \$800 +/- per sq. ft. sales, 6 million +/- annual visitors and 533,000 square foot center
- (2) International Council of Shopping Centers (ICSC) Research, 2005 Mall Shopper Survey - based on 21,000 exit interviews conducted at 56 regional and super regional malls owned and managed by General Growth Properties, Simon Property Group and The Mills Corporation.
- (3) International Council of Shopping Centers (ICSC) Research, 2009 Canadian Mall Shopper Survey - based on 48,000 exit interviews conducted in regional and super regional malls owned and managed by Oxford Properties Group, Ivanhoe-Cambridge Inc. and Cadillac-Fairview Corp, Ltd.
- (4) ICSC Research, which also estimates that half the shoppers who browse at carts end up buying something.
- (5) Former Rouse employee

Source: C. J. Law & Associates, LLC and as noted above

Exhibit 33
Shopping Center Sales Per Square Foot

Type of Center	Sales Per Square Foot (\$ 2008)		
	Average Sales PSF	Average Sq.Ft.	Median Sales PSF
US Community Shopping Centers in the East	\$362	197,566	\$329
US Neighborhood Shopping Centers in the East	\$329	66,244	\$308
US Convenience Shopping Centers	\$273	19,145	\$190
US Food Courts in Community Shopping Centers			\$272

Median Sq.Ft.
193,970
68,890
18,729
120 seats

Sources:
Dollars & Cents of Shopping Centers, 2008, Urban Land Institute and International Council of Shopping Centers
C. J. Law & Associates, LLC



ECONOMIC AND MARKET ASSESSMENT: NIAGARA FALLS, NEW YORK



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Technical Memorandum #5

Retail and Restaurant Analysis

Niagara Falls Technical Memo – Retail & Restaurant

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6. ***Retail Development Potential & Strategic Recommendations***
 - 6.1. Niagara Falls Community Retail (ESRI Gap, Big Box)
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7. *Further Study / Action Recommendations*
 - 7.1. Action Plan
 - 7.2. Mid-Box Retail & Retail in General

List of Exhibits

- Exhibit 1: Super Regional & Regional Malls, Buffalo-Niagara, NY and Niagara-St. Catharines, Ontario
- Exhibit 2: Outlet Malls, Niagara Falls, NY and Niagara Falls, Ontario
- Exhibit 3: Power Centers, Niagara Falls / Amherst, NY Area and Niagara Falls, Ontario
- Exhibit 4: Community Centers and Larger Neighborhood Centers
- Exhibit 5: Local Retail, City of Niagara Falls, Tourist and Downtown Areas
- Exhibit 6: Tourist-Oriented Retail, Niagara Falls, Ontario
- Exhibit 7: Galleria Shops, Fallsview Casino
- Exhibit 8: Niagara Falls Trade Area Demographics
- Exhibit 9: Tapestry Segments Niagara Falls
- Exhibit 10: Niagara Falls Tourist Area Demographics
- Exhibit 11: Tapestry Segments Tourist Study Area
- Exhibit 12: Regional Demographics
- Exhibit 13: Niagara Falls, NY, US Visitor Spending, 2009
- Exhibit 14: Niagara Falls, NY, State Park Visitor Spending, 2009
- Exhibit 15: 2007 Niagara Tourism & Convention Corp. Visitor Profile Survey
- Exhibit 16: Niagara Region, Ontario – Per Person Visitor Spending by Category, 2007
- Exhibit 17: Niagara Region, Ontario – Overnight Visitor Spending by Category, 2007
- Exhibit 18: Niagara Region, Ontario – Daytrip Visitor Spending by Category, 2007
- Exhibit 19: Atlantic City Visitor Profile, 2008
- Exhibit 20: Atlantic City Visitor Profile, 2008 – By Segment
- Exhibit 21: Oklahoma Casino and Racino Visitors, 2008
- Exhibit 22: National Park Visitor Spending in the Local Area by Segment, 2008
- Exhibit 23: Competitive Restaurant Supply, Downtown Niagara Falls, NY
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- Exhibit 25: Competitive Restaurant Supply, Outlet Mall Market, Niagara Falls, NY
- Exhibit 26: Competitive Restaurant Supply, Seneca Casino, Niagara Falls, NY
- Exhibit 27: Competitive Restaurant Supply, Clifton Hill, Niagara Falls, Ontario
- Exhibit 28: Competitive Restaurant Supply, Fallsview, Niagara Falls, Ontario
- Exhibit 29: Live Entertainment Supply, Niagara Falls, NY
- Exhibit 30: ESRI Retail Potential, Retail Sales, and Surplus-Leakage Factor
- Exhibit 31: Evaluation of Destination Retail / Restaurant Center Concept Potential
- Exhibit 32: Retail Spending Benchmarks
- Exhibit 33: Shopping Center Sales Per Square Foot

1. Introduction

This memorandum provides information on retail supply, trade area demographics, and visitor spending potential for the greater Niagara Falls area, and the City of Niagara Falls and the Tourist Study Area in particular. Given the cross-border nature of the retail market, we have compiled information on the retail markets in both the U.S. and Canada. This information is based on our primary research, stakeholder interviews, and data compiled from public sources and ordered from private national data providers.¹ Our evaluation of this information indicates the areas which we perceive to have the strongest potential for development and the attraction of private investment.

In presenting this information the memorandum progresses from larger to smaller geographies - looking at retail supply, demographics, and development potential in the greater Niagara Falls area, then the City of Niagara Falls, and then the Tourist Study Area. Resident demographics are examined first, followed by visitor data.

We include an analysis of the restaurant and live entertainment sector, prepared by Restaurant Advisory Services, in Section 5.

We conclude with strategic conclusions and recommendations regarding retail development potential. The scope of this memorandum involves recommendations regarding the overall retail development strategy, not micro tenanting recommendations.

¹ Survey field work was conducted in August - October 2010.

2. Retail Supply

2.1 Super Regional & Regional Malls

There are currently six super-regional or regional malls operating in the Buffalo – Niagara Falls Metropolitan Statistical Area (MSA)—an MSA which has a 1.1 million population²--and one super-regional mall in the St. Catharines – Niagara Census Metropolitan Area (CMA) in Ontario--a CMA which has an population of 406,000+/-³ -- as summarized in Exhibit 1. Closest to Niagara Falls, New York, are the Boulevard Mall in Amherst, approximately 16 miles away; the Walden Galleria in Buffalo, approximately 23 miles away; and Pen Centre in St. Catharine's, Ontario, approximately 17 miles away. The remaining malls are to the east and south of Buffalo, 23 to 30 miles from Niagara Falls, New York.⁴ Occupancies are 95% to 100%, major anchors such as Macy's, Bon Ton, JC Penney, and Lord & Taylor are represented, and market intelligence indicates that these centers are performing significantly above average in terms of sales.

Generally speaking the Boulevard Mall serves the northern portion of the metropolitan area including Niagara Falls, NY, with the Walden Galleria, as the largest mall in the region, serving this and other parts of the metropolitan area as well, with an estimated 18 million annual visitors. The Boulevard Mall in particular is surrounded by a densely populated area with relatively high median household income levels for Western New York. In combination with the adjacent Boulevard Consumer Square Power Center and other smaller retail centers, The Boulevard Mall represents the premier shopping concentration in the metropolitan area.

While there are no reliable statistics on the number or percentage of Canadian shoppers patronizing these malls, market participants indicate that Canadians do represent a noticeable customer base at these locations, based on observations of Canadian license plates in the parking lots of these centers. Discussions indicate that the attraction is name brands and merchandise not available in Canada and also price considerations, particularly given the favorable Canadian-U.S. exchange rate in recent years.

In discussing cross-border shopping and relative merchandise costs with leasing and marketing personnel at these and other centers, we identified a few consistent themes:

- One of the major reasons Canadian shoppers venture into the U.S. is to obtain name brands and merchandise not available in Canada.⁵

² ESRI 2010 estimate

³ Environics Analytics 2010 estimate

⁴ The Summit Mall, located in Niagara Falls, is now closed with only the Sears and a Save A Lot supermarket currently operating. This center is not well-located and even when operating was not physically attractive.

⁵ Canadian licensing requirements for U.S. retailers have historically been an impediment; although in recent years U.S. retailers operate in Canada have increased.

- Exchange rate considerations and the relative cost of goods do come into play — to quote an article from Bank of Montreal (BMO) Capital Markets Economics, “As the loonie gets within sight of par, cross-border price comparisons become Canada’s second favourite national pastime”⁶. BMO indicates a relationship between the exchange rate and cross-border traffic. In addition to the exchange rate, Canadian import/export regulations, different economies of scale (less population density, so increased transportation costs), higher taxes, and higher packaging costs due to bilingual requirements, can make Canadian merchandise more expensive, although this is not consistently true across all categories of merchandise and price-cuts by Canadian retailers do seem to be a response to increased cross-border shopping. BMO reported that the cost of an arbitrarily selected basket of goods was 7% higher in Canada than the U.S., before taxes, in July 2009, in comparison to approximately 18% higher in June 2008.

The Pen Centre serves all of the St. Catharines – Niagara Falls, Ontario CMA, and is the only super-regional (or regional) mall in the area. Anchors include Canadian retailers such as The Bay, Zehr’s, and Zellers, and U.S. retailers such as Sears. According to the Director of Leasing for the mall, they do not have many U.S. shoppers, particularly given the exchange rate in recent years and stricter border requirements.

2.2 *Outlet Malls*

There are two extremely successful outlet malls in the region, Fashion Outlets of Niagara Falls, USA, in the Town of Niagara, and Canada One Factory Outlets in Niagara Falls, Ontario, as indicated in Exhibit 2. These centers serve as alternatives to regional and super-regional malls for the local U.S. and Canadian resident populations and also, as is typically the case for outlet malls, draw from a significantly larger trade area.

Fashion Outlets of Niagara Falls, USA, estimates 6 million +/- annual visitors and indicates that approximately 50% of their customers are Canadian and 50% are American, based on their discussions with their retail tenants. The center draws customers from the greater Toronto area, the area of Ontario between Toronto and Niagara Falls, and within a 50-mile radius in the U.S.⁷ Management indicates that their largest customer base is the population in the more affluent Toronto metropolitan area and Canadians in general, followed by Niagara Falls tourists (visitors to both the U.S. and Canadian sides of the river), and lastly U.S. residents.

The Fashion Outlets achieves in the range of \$800 +/- per square foot in sales and as a result is one of the top three performing outlet malls in the U.S. in terms of per square foot sales. Based on 533,000 square feet, this is a total of \$426 million in sales and based on the estimated 6 million +/- visitors, represents an average of \$71 per visitor. In our

⁶ Special Report from BMO Capital Markets Economics, July 29, 2009, “Loonie’s Leap: Mind the (Price) Gap”.

⁷ Generally speaking, they look for a 2 to 4 million population within a 100-mile radius for their outlet centers.

opinion the tenant roster of major draw retailers in this center and a superior marketing program account for its success. It should be noted that the owner positioned the center as an alternative to U.S. retailers locating stores in Canada (the latter involving various licensing and operating requirements).

Canada One Factory Outlets, a much smaller mall at 198,000 square feet, is the top performing outlet mall in Canada and achieves sales in the \$800 +/- per square foot range. According to management, based on a market study they had done, 58% of their customers come from the Toronto area. While they market to the tourist/visitor population, this is not a large percentage of their shoppers. Similarly, U.S. shoppers have not been a large customer segment (historically representing a maximum of 20% and typically being much less). Indications are that the center's prices are high for local residents, who tend to patronize Pen Centre as an alternative. We reviewed the results of a license plate survey conducted in November 2007 at the outlet mall which indicated that 1/3 of the shoppers originated from within the Niagara Falls Regional Municipality and 2/3rds came from other parts of Ontario, extending just north of Toronto (12% of shoppers originated from the City of Toronto itself).⁸

There is another outlet mall in Niagara Falls, Ontario, currently in the site plan submission phase as part of a 2 million square foot mixed-use development located on a property just west of the Whirlpool Bridge being developed by Cross-Link Bridge Corporation. The Phase I retail component is a 300,000 square foot fashion outlet mall. Later phases include an additional 200,000 square feet of outlet mall development. Projected opening is 2014, but at this time no substantial pre-leasing has occurred. The developer considered a 1 ½ hour to 2 hour drive time as the trade area for their project.

Despite, or more accurately because of, the success of the existing outlet malls, and even given the substantially favorable trade area demographics for this type of development discussed subsequently, we do not see the potential for additional outlet mall development in Niagara Falls, NY. The existing outlets have cornered the market in terms of outlet tenants (especially those which have the greatest draw) and existing tenants would not be willing to split their area sales in two locations. We have confirmed this conclusion with one of the top three outlet developer/owners in the U.S. who indicated that the two existing outlet centers cover the regional demographics and tourist trade and therefore they would not be interested in any potential outlet development opportunities in the area.

2.3 Power Centers & Big Box Stores

Exhibit 3 identifies the power centers existing or under construction in the Niagara Falls / Amherst, NY, area and in Niagara Falls, Ontario. Most of the new retail development in the Niagara Falls region is these power centers.

⁸ "Market Overview and Economic Analysis of the Strategic Implementation Plan, Queen Street Downtown Area, City of Niagara Falls, Ontario", Joseph Urban Consultants / Altus Clayton, June 2007.

The La Salle Center, located in the City of Niagara Falls, is the location of the new 269,000 square foot Walmart Super Store, replacing their former 117,000 +/- square foot store in the Town of Niagara (currently vacant and for lease). The center has an additional three big box store sites plus four restaurant parcels, one currently leased and operated by Chili's.

Other big box stores located in the City of Niagara Falls or the Town of Niagara include Home Depot, K-Mart, and Sam's Club, which are located on or in close proximity to the Military Road retail corridor.

There is also a retail development site on Military Road in the City of Niagara Falls, just north of Niagara Falls Boulevard where M & T Bank is currently located, owned by Benchmark Group, a retail developer and owner based in Amherst, NY. Benchmark currently owns 5.5 to 6 acres, with the ability to acquire additional acreage for a total parcel of 9 acres. While they have no actual development plans, they are trying to lease pads for retail development. We would anticipate that this site will accommodate mid-box retailers who do not meet the non-compete requirements of Walmart at the LaSalle Center.

The two other power centers in the U.S. closest to Niagara Falls are Boulevard Consumer Square in Amherst, approximately 15 miles from Niagara Falls, and Amherst Shopping Center in Amherst, approximately 17 miles from Niagara Falls. Boulevard Consumer Square has 30 tenants including Babies R Us, Barnes and Noble, Bed Bath & Beyond, Best Buy, Lowe's, and Target and is 93% leased. Amherst Shopping Center has 12 tenants and includes TJ Maxx and Toys R Us, but currently is only 64% leased with some major blocks of space available. List rents range from \$6 to \$17 per square foot triple net, depending on the size of the space.

Power centers in Niagara Falls, Ontario, include Rio Can Niagara Falls, which has 16 tenants including Home Depot, Staples, Walmart, and Zehrs (supermarket). A license plate survey conducted by a consultant in November 2007 indicated that 91% of the shoppers originated from within the Niagara Regional Municipality and 78% from within the City of Niagara Falls, Ontario, itself.⁹ Under construction are: (a) Smart Centres Niagara Falls, a 350,000 square foot power center anchored by a Walmart Super Store, located at the QEW (Queens Expressway) / McLeod Road interchange¹⁰ where additional retail development (rumored department store, home improvement centre, plus other retail, restaurant and service tenants) is planned in future phases, and (b) McLeod Square, a 220,500 square foot center at the McLeod Road/Montrose intersection, anchored by a 130,000 square foot Lowe's. The owner of McLeod Square indicated that they consider their trade area to be Niagara Falls, Ontario.

⁹ "Market Overview and Economic Analysis of the Strategic Implementation Plan, Queen Street Downtown Area, City of Niagara Falls, Ontario", Joseph Urban Consultants / Altus Clayton, June 2007.

¹⁰ It is not know at this time whether Walmart intends to vacant their space in the Rio Can center when this space is completed.

2.4 Community Centers & Larger Neighborhood Centers

Niagara Falls, NY and Adjacent Communities

In addition to regional and outlet malls and power centers serving larger trade areas, Niagara Falls, NY, has a number of community shopping centers and larger neighborhood centers which primarily serve customers in the City and Town of Niagara, as summarized in Table 4. With the exception of the Portage Center, which is located closer to the downtown area of the City of Niagara Falls, all these centers are located on the Military Road / Niagara Falls Boulevard retail corridors which are approximately 6 miles east of the Tourist Study Area and the downtown area.

Also listed in Exhibit 4 are community centers and larger neighborhood centers in the adjacent communities of Grand Island, North Tonawanda, and Tonawanda for comparison purposes.

The largest of these community centers is Niagara Consumer Square, a 317,700 square foot center with 15 tenants anchored by Target and Tops Markets (supermarket) which is 100% leased, but does have an available pad site that the owner has been trying to lease for 7 years. According to center management, the trade area for the Target store includes Niagara Falls, Southern Ontario, Grand Island and some outlying Niagara County, while the trade area for the Tops Market is mostly Niagara Falls, NY.

The second community center is Niagara Square on Military Road. A 187,400 square foot, Class "B" center with approximately 12 stores including Big Lots, Dollar Tree, Jo-Ann Fabrics, and Rosa's Home Furnishings (space to be vacated), this center is in transition to a hybrid retail center with service and office use. At the time of the survey, this center was only 41% occupied. World Gym recently moved from the Wegmans Center and expanded to 20,000 to 25,000 square feet in this location. A current listing for 22,000 square feet of space was \$9 per square foot triple net.

Wegmans Plaza is a neighborhood center with 16 stores anchored by Wegmans supermarket. Currently 95% leased, rents range from the mid single digits for Wegmans up to \$12 to \$20 per square foot triple net for smaller tenants. Management considers their trade area the western third of Niagara County, but does report that they get some Canadian shoppers.

Milpine Plaza is a neighborhood center with 10 stores anchored by Family Dollar, Ollie's Bargain Outlet, and Supermarket Wines and Liquors. Currently 90% leased, rents average in the low teens triple net. Management considers their trade area all of Niagara Falls, NY, and Lewiston. The liquor store does report a significant number of Canadian shoppers, which is logical given the much higher cost of liquor in Canada. The center recently obtained site plan approval for an outparcel site, currently under construction.

Portage Center is the only neighborhood retail center of significant size located in the City of Niagara Falls outside of the Niagara Falls Boulevard / Military Road corridor. Rent levels do reflect the lower traffic counts and lesser population density in this

location. This 111,000 square foot center is currently fully leased and anchored by a Tops Market (73,300 square foot supermarket) and Rite Aid pharmacy (13,000 square feet). Other tenants are Dollar Tree, Fashion King, Easy Home, and Rainbow (apparel). Rite Aid is moving to a newly constructed building, so will be vacating its space. The leasing agent has two non-pharmacy tenants ready to re-lease the space, but at lower than the \$10 per square foot triple net list rent.

Pine Plaza is a neighborhood center with 20 stores including Fashion Bug, Office Max, and a number of restaurant tenants. Currently 79% leased, rents range from \$8 to \$10 per square foot triple net for larger tenants and \$12 to \$18 per square foot triple net for smaller tenants. Management considers their trade area the western third of Niagara County.

Niagara Falls, Ontario

There are three community centers and one larger neighborhood center in Niagara Falls, Ontario (see Exhibit 4). These centers are located between 9 and 13 miles from Niagara Falls, measuring from the intersection of Niagara Falls Boulevard and Military Road.

Niagara Square is the largest community center in Niagara Falls, Ontario, with over 300,000 square feet and 78 stores. The center has historically struggled to maintain occupancy. The current ownership “de-malled” the center, meaning that they eliminated the anchors and replaced with big box stores and are now working on filling the mall interior. Current occupancy is about 89%. Anchors include mostly Canadian retailers, including The Brick (home), Cineplex, Future Shop (electronics), NYSK Linen N Furniture, LW Outlet, Michaels (arts & crafts), Sport Chek, and Winners (apparel). The center sold an outparcel to the Canadian Tire Store (general merchandise), which has plans to build on the site. Estimated sales are \$300 to \$325 per square foot (\$ Canadian). A license plate survey conducted by a consultant in November 2007 indicated that 87% of the shoppers originated from within the Niagara Regional Municipality and 69% from within the City of Niagara Falls, Ontario, itself.¹¹

2.5 Local Retail, City of Niagara Falls, Downtown and Tourist Study Areas

As discussed, the main retail corridors in Niagara Falls are Military Road and Niagara Falls Boulevard. Retail centers / concentrations closer to the downtown area of the City of Niagara Falls and the Tourist Study area are more limited. Traditional retail districts in these areas include:

- The Pine Avenue district which includes the Portage Center (Tops Market) discussed earlier and local stores and restaurants and the City Market located along Pine Avenue. There are a number of local stores along Pine Avenue, serving the residential population and downtown employees, primarily from Niagara Medical Center and City Hall.

¹¹ “Market Overview and Economic Analysis of the Strategic Implementation Plan, Queen Street Downtown Area, City of Niagara Falls, Ontario”, Joseph Urban Consultants / Altus Clayton, June 2007.

- Along Pine Avenue space is approximately 1/3 restaurants, 1/3 services, and 1/3 or less retail – including local retailers and retail chains such as Rite Aid pharmacy, Wilson’s mini-mart, and Tim Horton’s restaurant. The corridor has a number of vacancies. The rent range is \$4 to \$7 per square foot (net) for ground level space.
- The City Market (1726 Pine Avenue) is a 43,600 square foot neighborhood center 100% occupied with four stores – Dollar General, Pine Pharmacy, Save A Lot supermarket (approximately 16,000 square feet), and a free-standing McDonalds¹²
- Main Street stores and restaurants, which tend to serve the resident population and downtown employees, except for the portion of Main Street in the Tourist Study Area;
- Retail and restaurants in the Tourist Study Area – on Rainbow Boulevard, Prospect Street, Main Street, 3rd Street, Niagara Street, in area hotels, or within the Seneca Niagara Casino--most of which is tourist-oriented.

Tourist Study Area

Exhibit 5 provides a summary of “retail” space in the tourist study area (excluding casino retail) based on information provided by the City of Niagara Falls, filtered and supplemented by tax assessment data and our analysis. Retail space was identified based on New York State Tax Assessor property class codes. Where possible, we have excluded food and beverage uses, covered in another section. In some cases buildings are mixed-use, so “retail” space estimates should be considered approximate. Space was classified as available (for lease), occupied, or vacant/unknown status by the City of Niagara Falls based on a visual survey in Spring 2011. We have also highlighted some retail space, such as the Rainbow Mall, with special circumstances.

According to this data there is approximately 58,000 square feet of occupied retail space in the Tourist Study Area plus a small amount of additional occupied retail space in area hotels; in particular, as part of the Comfort Inn property (1 Rainbow Boulevard). Major components include 360 Rainbow Boulevard (close to 19,000 square feet of tourist/souvenir retail), 333 Prospect Street – Hard Rock Café and JD Gifts (close to 12,000 square feet combined, JD Gifts is tourist/souvenir retail), 418 Third Street – bank use (approximately 7,600 square feet), and 451 Third Street. 451 Third Street is currently being redeveloped as a retail/residential building. The 6,000 square feet of ground level retail space will be occupied by a restaurant, liquor store, and mini-mart. Rents are approximately \$8 per square foot net. Other spaces include 16 Rainbow Boulevard, occupied by Honeymoon Capital Souvenirs, and 402 Niagara Street, occupied by Wilson Farms.

Space classified as “available” by the City includes approximately 24,500 square feet, most of which is located on Third Street. Space classified as “vacant/unknown” by the

¹² Under construction at the time of the survey.

City includes about 20,000 square feet, most of which is on Niagara Street. However, based on data available from sources such as the Co Star Group (which for example, has a number of retail space listings on Pine Avenue) and local brokers, we do not consider most of this space active retail inventory – because it is either not being actively marketed and/or is not in rentable condition. We believe that some of this space is speculative holdings.

Retail or potential retail space with special circumstances includes 1 Rainbow Boulevard, a 19,500 square foot building which is part of the Comfort Inn property, and is currently partly leased as retail space. 307 Prospect Street is the location of Niagara’s Wax Museum of History. The Rainbow Mall will be partly occupied by Niagara County Community College’s Hospitality, Tourism, Culinary Arts Institute, but will have remaining space for possible retail occupancy. 333 1st Street is classified as a professional office building and is current leased, but vacant, but could be future retail space. In addition, the glass-enclosed walkway space along Old Falls Street, which is part of the building, is publicly owned and is potential retail space.

Retail space in the Seneca Niagara Casino consists of a half dozen small retail shops—Eight Clans Gift Shop (native American merchandise), Sky Boutique (jewelry, accessories, women’s apparel), Swarovski Crystal Boutique, Seasons (general), NewsStand (sundries), Players Club Store (electronics and more), and Ten (\$10 merchandise).¹³

2.6 Tourist-Oriented Retail, Niagara Falls, Ontario

As a basis for comparison we did an inventory of the tourist-oriented retail in Niagara Falls, Ontario. This retail inventory, summarized in Exhibit 6, is surprisingly limited.¹⁴ It consists of the Galleria retail and restaurant space in the Fallsview Casino, some souvenir and sundries shops in Clifton Hill and area hotels, and local retail on Queen Street in downtown Niagara Falls which actually caters more to the local population.

The Galleria consists of approximately 80,000 to 90,000 square feet of retail and restaurant space (see Exhibit 7) within the Fallsview Casino, but with good visibility and access to surrounding streets and parking. Approximately one-third of the space is retail and two-thirds is food/restaurant, supporting approximately 20 retailers ranging in size from 550 to 4,725 square feet and 12 restaurants. Annual sales are estimated to average in the \$550 per square foot range.

Our interview with the Director of Retail provided some lessons learned in terms of retail development for the Niagara Falls tourist market. He indicated that without the 9 million annual casino visitors they would not be able to sustain this retail development, that the mix of restaurant and retail space was carefully considered, and that much consideration was given to the demographics of their customer in tenanting and merchandising.

¹³ Data on the total retail square footage was not available to the consultants, but these type of tenants typically occupy 500 to 1,500 square feet (each).

¹⁴ We did not include the inventory of restaurant spaces in and adjacent to the major hotels in the Clifton Hill area and along Fallsview Blvd as this use is considered separately in another section.

Specifically, he cautioned that Niagara Falls is a low cost tourist destination where people arrive primarily by car. While the initial instinct with casino retail is to lease to luxury retailers, they determined that this was not appropriate for their customer base. They kept the retail much less luxury-oriented (no men's suits or high-end jewelry stores) and have regular mall pricing (not tourist pricing). As an example one of their most successful retailers is Lids, a ball caps store.

Clifton Hill has much more restaurant and attraction space, than pure retail space. Specialty shops at Clifton Hill include Canada Trading Company (t-shirts, tourist souvenirs), the Fudge Factory (candy), the Fun Factory (toys), and Build-A-Bear (toys). There is a limited amount of additional retail on the ground floor of some of the hotels. The largest amount is in the Sheraton on Falls Avenue which houses souvenir/convenience/boutique retail including Picadilly Place, Boutique on the Falls, Foxhead Souvenirs, and the Hershey's Store. In total, the order of magnitude retail square footage is in the 10,000 square foot +/- range, although exact square footage information was not available to the consultants.

Queen Street is the historic downtown area of Niagara Falls, Ontario, and the location of City Hall, the Post Office, and a number of office employers (banks, financial services, law firms, accounting firms, engineering and architecture firms, among others). A 2006 study of the area indicated that there was a total of 440,000 square feet of retail and personal service space, only 41% of which was occupied. In 2004 Historic Niagara Development purchased over 50 properties on and around Queen Street and in 2008 began an intensive leasing effort. In the past two years they have leased space to approximately 20 restaurants, retailers, and galleries.¹⁵ A significant amount of public funding was used for infrastructure and area beautification to support this development.

While their target market is both tourists and local residents (and Queen Street will be a stop on the planned people-mover), at present it appears that the customer base is predominately daytime employees with a few of the most successful restaurants attracting local residents in the evening. The developer just recently signed a lease with their first national tenant; prior to this, local restaurants and retailers were the only tenants they were able to attract. Market intelligence indicates that initial tenants were offered free rent and other substantial inducements to lease in the area and even the developer admits that with current rent levels, it is difficult to "make the numbers work".

¹⁵ See www.Niagarafallsdowntown.com and www.marconiconsulting.com for further project information.

3. Trade Area Demographics

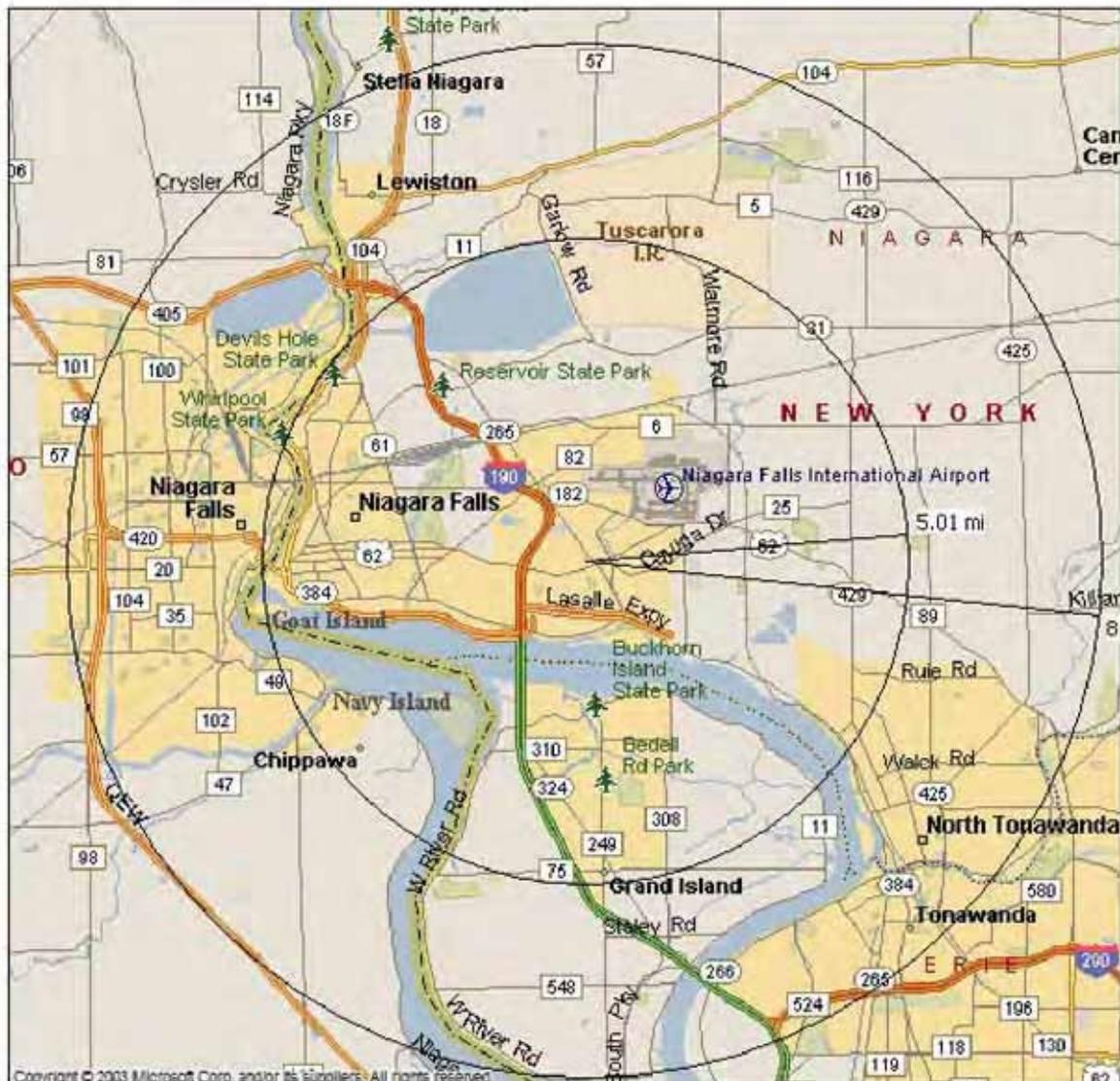
Since existing regional malls adequately serve the existing population density, our trade area demographics focus on the trade area for community centers and power centers in Niagara Falls, the trade area for neighborhood centers for the Tourist Study Area, and regional demographics representing the trade area for outlet malls and other regional attractions. In a subsequent section we discuss visitor spending data to indicate retail demand potential from the tourist/visitor segment.

3.1 Niagara Falls Trade Area Demographics – Community Centers, Power Centers & Big Box Stores

Given the retail supply in the area, typical draw of these types of centers and retailers, and input we received from shopping center owners/managers regarding their trade areas, we consider the primary trade area to be within a 5-mile radius in the U.S., measuring from the intersection of Niagara Falls Boulevard and Military Road. We selected this intersection as the center of the radius because we consider this area to be the most probable location for this type of development given site availability, traffic counts, existing retail development, and population density and demographics.¹⁶ As Figure 3-1 below indicates this encompasses the City and Town of Niagara, some outlying areas of Niagara County, and the northern portion of Grand Island.

¹⁶ For example, the population within a 5-mile radius of this intersection is 87,381 with median household income of \$45,641 in comparison to a population of 53,987 and a median household income of \$36,908 within a 5-mile radius of the intersection of N. Rainbow Blvd. & Old Falls Street. The additional population density is particularly critical for attracting many of the mid-box retailers.

Figure 3-1
Trade Area Map



Potential secondary trade areas include the population within an 8-mile radius in the U.S., which includes Lewiston to the north, the balance of Grand Island, additional areas in outlying Niagara County, North Tonawanda, and a small portion of Tonawanda. The highest population density in this area is in the communities of North Tonawanda and Tonawanda, which in addition to having significant retail concentrations of their own, are closer to retail concentrations in Amherst than to retail in Niagara Falls, so penetration of this secondary market is likely to be rather small. However, Niagara Falls retailers are likely to penetrate this secondary market to the north given limited retail offerings in communities such as Lewiston.

Another secondary trade area is Niagara Falls, Ontario, which as Figure 3-1 indicates, is almost entirely within an 8-mile radius. Penetration of this secondary trade area will depend on the retailer and type of merchandise offered, as well as the exchange rate and relative prices of goods as discussed previously, since there is not a lack of retail supply in Niagara Falls, Ontario.

The balance of the St. Catherines-Niagara Ontario CMA can be considered a tertiary trade area. With a substantial number of retail centers in St. Catherines, the area with the greatest population density in the CMA, most of the retail demand from this trade area will be accommodated in Canada. However, U.S. retail not available in Canada might be able to capture a portion of the demand in this trade area.

Exhibit 8 provides a summary of the key demographic characteristics of these trade areas.¹⁷ As indicated the primary trade area (5-mile radius, U.S.) has a population of 87,381 and 36,381 households with a median household income of \$45,641. This relatively small population and the lack of projected population growth will constrain the types of retailers willing to locate in the area. However, capturing some of the retail demand from the secondary (and tertiary) trade areas will improve the retail development potential. In particular, Niagara Falls, Ontario, has a population of 86,692 and 34,504 households, with median household income in the \$50,000 to \$60,000 range, with forecasted population growth.

Tapestry Segmentation

ESRI uses its demographic data to classify trade area populations into groups called tapestry segments which provide an understanding of the types of consumers and generally speaking the types of products and services of interest to them. While not infallible, this segmentation does indicate the types of retail development which may be most attractive to the majority of the households in the trade area.

ESRI data indicates the following top five tapestry segments within the primary trade area, as summarized in Exhibit 9. Summary characteristics and preferences of each of these groups from ESRI data are described below.

Rustbelt Retirees – Most of the households in these neighborhoods are married couples with no children or singles who live alone. Many have lived in the same house for years. Rustbelt Retirees buy home furnishings and work on remodeling projects to update their houses. They watch their pennies, use coupons, and look for bargains at discount stores and warehouse clubs. They eat out at family restaurants such as Perkins and Friendly's and watch rented movies on DVD instead of going to the theater. They also go bowling, play cards and bingo, gamble in Atlantic City (or in this case in Niagara Falls), and go to horse races.

Cozy and Comfortable – Most residents are married with or without children, employed, white, and living in single-family homes. Home improvement and remodeling projects

¹⁷ More detailed reports available.

are important to them. They play golf or ice skate for exercise. They attend ice hockey games, watch science fiction movies on DVD, and take domestic vacations. They eat at family restaurants such as Friendly's, Bob Evans Farms, and Big Boy. Most households own multiple television sets.

Rustbelt Traditions – These neighborhoods are primarily a mix of married-couple families, single parents and singles who live alone. For years they have lived, worked, shopped, and played in the same area. They stick to familiar products and services. They drive domestic cars and spend money on their families, yard maintenance, and home improvements. They are frugal and shop for bargains at Sam's Club, J.C. Penney, and Kmart. They go bowling, fishing and hunting and attend car races, country music shows, and ice hockey games.

City Dimensions – Diversity in household type and ethnicity characterizes these neighborhoods. Most residents are young (median age 29 years) and households are a mix of types – singles who live alone, married-couple families, and single-parent families. Housing types are split between single-family homes and apartments. Residents are big-time sports fans and this is a top market for buying and wearing sports team clothing. Families with children spend wisely for children's and baby products, preferring to shop at discount stores. They use store brands. They eat out and go to the movies.

Simple Living – This market is slightly older than the U.S. average and about 20% are 65 years or older. Nearly 40% collect Social Security benefits. A significant percentage of these households do not own a vehicle. Simple Living households spend wisely on a restricted budget. They buy the essentials at discount stores and treat themselves to dinner out and a movie.

3.2 Niagara Falls Tourist Area Demographics – Neighborhood Retail

Focusing on the primary trade area for convenience or neighborhood retail in the Tourist Study Area, we evaluated demographic data for the area within a 1-mile and 2-mile radius of the intersection of North Rainbow Boulevard and Old Falls Street. As discussed in an earlier section, there is very little existing retail development of significant scale within the 1-mile radius (primarily the Portage Center anchored by Tops Market) and within the 2-mile radius the most significant retail concentrations are the Portage Center and retail development along Pine Avenue. We also considered businesses and employment within these areas as another potential source of retail demand.

Exhibit 10 provides a summary of key demographic data.¹⁸ Within a one-mile radius there are 2,619 households with median household income of \$21,248 and a total population of 5,659. Within a two-mile radius there are 10,611 households with median household income of \$26,939 and a total population of 23,291. As discussed in an earlier section of the consultant report, there are 395 businesses and 9,655 employees within a

¹⁸ More detailed data available.

one-mile radius. Employment is dominated by the Seneca Niagara Casino & Hotel and Niagara Falls Memorial Medical Center, which is located on the outskirts of the one-mile radius and closer to Pine Avenue retail. Several downtown hotels in the Tourist Study Area also represent a significant portion of area employment. Within a two-mile radius there are 883 businesses and 14,491 employees.

Possible secondary and tertiary trade areas include the U.S. population within a 5-mile radius and the population in Niagara Falls, Ontario; however, retail development would need to be of sufficient scale and draw to attract customers from this wider area.

Figure 3-2
Trade Area Maps

1-Mile Radius, USA



ESRI

2-Mile Radius, USA

ESRI

Tapestry Segmentation

ESRI uses its demographic data to classify trade area populations into groups called tapestry segments which provide an understanding of the types of consumers and generally speaking the types of products and services of interest to them. While not infallible, this segmentation does indicate the types of retail development which may be most attractive to the majority of the households in the trade area.

ESRI data indicating the top five tapestry segments within the one and two-mile trade area, and also the five-mile radius area for comparison, is presented in Exhibit 11.

Summary characteristics and preferences of each of these groups from ESRI data are described below.

Simple Living – This market is slightly older than the U.S. average and about 20% are 65 years or older. Nearly 40% collect Social Security benefits. A significant percentage of these households do not own a vehicle. Simple Living households spend wisely on a restricted budget. They buy the essentials at discount stores and treat themselves to dinner out and a movie.

City Commons – Single-parent families or singles who live along comprise most of these very young households (median age 25.4). A large percentage of the population is black. A large percentage of the residents are employed in service occupations and a significant number are on public assistance or receive Supplemental Social Security income. Close to three-quarters of the households rent. City Commons residents buy baby and children's products, food, and clothing most frequently. They shop primarily at discount stores and occasionally at department stores. Most families enjoy eating at fast food restaurants several times a month.

Social Security Set – There are a significant percentage of householders above 65. For those employed, the service industry provides a high percentage of jobs. A significant portion of these households do not own a vehicle. The majority are renters. Limited resources somewhat restrict the activities and purchases of residents in these neighborhoods. They shop at discount stores, but prefer grocery stores close to their home.

Modest Income Homes – The majority of residents are black. Single-person and single-parent household types predominate. More than one-fourth are 65 years or older and retired. Service and blue-collar occupations predominate. To save money they shop at discount stores.

City Dimensions – Diversity in household type and ethnicity characterizes these neighborhoods. Most residents are young (median age 29 years) and households are a mix of types – singles who live alone, married-couple families, and single-parent families. Housing types are split between single-family homes and apartments. Residents are big-time sports fans and this is a top market for buying and wearing sports team clothing. Families with children spend wisely for children's and baby products, preferring to shop at discount stores. They use store brands. They eat out and go to the movies.

3.3 Regional Demographics – Outlet Malls & Other Regional Attractions

Our discussions with management of the two outlet malls in the area indicate that the area within a two-hour drive time (see map) is an appropriate trade area. This is also a reasonable area to consider as the origins for the majority of daytime visitors to destination attractions. In addition a detailed Atlantic City Visitor Profile completed in 2008 by Spectrum Gaming indicated that Atlantic City, a much larger destination, drew

4. Visitor Spending Data

We compiled and evaluated visitor spending data from a variety of sources:

Niagara Falls, NY Data

Niagara Falls, NY, 2009 Visitor Report, Longwoods Travel USA

2009 Niagara Falls State Park Visitor Survey

2007 Niagara Tourism and Convention Corp. Visitor Profile Survey

Benchmark Data

Niagara Regional Tourism Profile 2007, Niagara Economic Development Corp., Ontario

Atlantic City Visitor Profile 2008, Spectrum Gaming Group

Trip Characteristics of Casino and Racino Visitors in Oklahoma, 2008

National Park Visitor Spending and Payroll Impacts 2008, D. Stynes

This data is summarized in Exhibits 13 to 22. It should be noted that methodologies and sample sizes vary tremendously and therefore we do not consider all results reliable. These various surveys differ in whether the data is gathered per day or per trip and per person or per party, making adjustments required for comparison. Spending categories are also not consistent across surveys. In addition different lengths of stay, overnight stays vs. daytrips, various party sizes and visitor characteristics make it difficult to compare survey results. Spending will also be affected by the availability of retail and restaurant development in the area. Finally, as most of these surveys are done to show the positive impact of tourism on the economy, they may have an inherent bias.

Therefore we have used these surveys to provide a general indication of the range of retail and restaurant spending levels of visitor populations. Since visitor spending is partly a function of what is available in terms of restaurants and retail, the consultants looked for visitor spending data for locations with similar tourist generators – namely casinos and state or national parks and of course, Niagara Falls, Canada. This was to see what type of potential there might be in Niagara Falls, USA, with greater restaurant and retail offerings. Benchmarks with any integrity in terms of data collection methodology were extremely limited so choices were limited.

Due to methodologies and sample sizes we consider the Niagara Region (Ontario) Tourism Profile (Exhibits 16, 17 and 18) and the Atlantic City Visitor Profile (Exhibit 19 and 20) the most reliable benchmarks, but also took into consideration the Oklahoma Casino/Racino Visitor study (Exhibit 21) and the National Park Visitor Spending survey (Exhibit 22).

The results of these surveys are discussed below.

4.1 *Niagara Falls, NY, Visitor Spending Surveys (Exhibits 13, 14, 15)*

Due to the limited sample size of these surveys and in the case of the State Park Visitor Survey and the Niagara Tourism & Convention Corporation (NTCC) Survey, some methodology issues, we do not consider this data very reliable. The most useful data comes from the Longwood survey (sample size of 258 overnight trips and 98 day trips), but this is based on U.S. visitors only, so may not be representative of all visitors. The Longwoods survey indicates average per person per day spending for overnight visitors - \$18 on restaurant food & beverage and \$14 on retail purchases – and daytrip visitors - \$18 on restaurant food & beverage and \$12 on retail purchases.

4.2 *Niagara Region (Ontario) Tourism Profile (Exhibits 17 and 18)*

Niagara Economic Development Corporation, Ontario, Canada, developed a Niagara Regional Tourism Profile in 2007, based on data from Statistics Canada, the Travel Survey of Residents of Canada, and the International Travel Survey. The survey separated the 11.0 million visitors into overnight visitors (41% of total) —which included all overnight travelers, not just tourists, 53% in roofed commercial lodging, 32% in private residents or cottages, and 15% other--and daytrip visitors (59% of total).

Inflated to \$2010 the survey indicates that overnight visitors spend an average of \$34 per person per day on food and beverage - \$28 at restaurants and bars and \$6 at stores – and \$14 per day on retail purchases – including approximately \$11 on clothing. The survey indicates that daytrip visitors spend an average of \$24 per person per day on food and beverage - \$19+ at restaurants and bars and \$4 at stores – and \$12 per day on retail purchases – including approximately \$8 on clothing.

4.3 *Atlantic City Visitor Spending (Exhibits 19 and 20)*

Spectrum Gaming Group developed an Atlantic City Visitor Profile in 2008, based on an intercept survey of 3,099 Atlantic City visitors. Visitors were surveyed at a variety of Atlantic City locations including all eleven casinos, three retail locations, two non-casino hotels, the Boardwalk, the Convention Center and Boardwalk Hall. However, the primary purpose of the trip for 81% of respondents was gambling.

Inflated to \$2010 the survey indicates that overnight visitors spend an average of \$55 per person per day on food and beverage and \$54 per person per day on shopping; while day trip visitors spend an average of \$47 per person per day on food and beverage and \$48 per person per day on shopping.

4.4 *Oklahoma Casino and Racino Visitors Spending (Exhibit 21)*

A professionally conducted online consumer survey with 590 usable responses measured the average expenditure per party per trip of Oklahoma casino and racino visitors. Based on an average party size of two people, average expenditures per person per trip in \$2010

were \$17 for food and beverage, \$14 for groceries, and \$24 for souvenirs. Given that 83% of the respondents were day trippers and 9% stayed only one night, this spending represents a fairly good estimate of daily per person expenditures.

4.5 National Park Visitor Spending (Exhibit 22)

To determine the economic impacts of National Parks, the Park system commissioned a study which included visitor spending estimates, based on calendar year 2008 park visits and spending averages from park visitor surveys. Generally speaking spending within a 50-mile radius of the park by park visitors was included. Data was compiled on a per party per day basis for local day trips, non-local day trips (originating from 50 miles or more), and overnight trips. Average party size average 2.6 system-wide and ranged from 2.0 to 3.0 across parks and visitor segments.

Given the location of national parks, which are often not in areas with substantial retail/restaurant concentrations and the characteristics of many of these visitors, we would expect average spending to be lower than that of Atlantic City visitors, for example, and it is. Overnight visitors spend an average of \$58 per party (roughly \$22 per person) at restaurants and bars, \$13+ per party (roughly \$5 per person) on groceries, and \$26 per party (roughly \$10 per person) per day within the local region. Non-local day trip visitors spend an average of \$21 per party (roughly \$8 per person) at restaurants and bars, \$8 per party (roughly \$3 per person) on groceries, and \$15 per party (roughly \$6 per person) on souvenirs. Local day trip spending in these categories combined totals \$28 per party (roughly \$11 per person).

4.6 Tourist Spending Patterns

According to the Travel Industry Association of America (TIA) and Specialty Retail Report, two factors in particular seem to motivate tourists to spend money out of town: to preserve the vacation experience (souvenir items), and to score bargains (non-souvenir items). American tourists shop to get a sense of local flavor and to take some of that regional feeling home. International shoppers, on the other hand, cite bargains on brand-name products as their primary motivation.²¹

Specialty retail serving the tourist market ranges from traditional beach retail, to retail at family attraction destinations like Walt Disney World or Six Flags, to high-end retail centers (tenants: Polo/Ralph Lauren and Williams-Sonoma) at pricey resorts like Hilton Head that cater to the upscale market segment, to shopping destinations paired with gambling casinos (Las Vegas, Atlantic City).

According to Specialty Retail Report, some retail products which appeal to tourists in particular include²²:

- Classic memento

²¹ "The Tourist Trade", Specialty Retail Report, Summer 2000.

²² "The Tourist Trade", Specialty Retail Report, Summer 2000.

-
- Localized product (bearing name of tourist destination or commercial establishment), often wearable or in some way useful
 - Items that commemorate an event
 - Items for immediate use – standard, small-ticket consumables like film and snacks, sunglasses/umbrellas/etc., casual clothing (Hawaiian shirts for example), costume jewelry
 - Food specialties from the region
 - Work of local artists and industries (e.g. Corning Glassworks visitors shop in Corning, NY)

5. Restaurant and Live Entertainment Analysis

5.1 Introduction

This memorandum evaluates the current inventory of full-service restaurants in the greater Niagara Falls market and provides strategic recommendations for future development priorities. This memorandum is the fifth in a series that focuses on various economic and statistical characteristics pertaining to the Niagara Falls, New York market area.

Overview of the Greater Niagara Falls Restaurant Market

The Greater Niagara Falls restaurant market is comprised of six submarkets:

- Downtown Niagara Falls, New York
- "Little Italy", Niagara Falls, New York
- Outlet Mall, Niagara Falls, New York
- Seneca Casino, Niagara falls, New York
- Clifton Hill, Niagara Falls, Ontario, Canada
- Fallsview, Niagara Falls, Ontario, Canada

Each submarket has its own characteristics, revenue profiles and market dynamics, as detailed below. In collecting data, most restaurants were cooperative in sharing information. Some restaurants may have been omitted due to non-cooperation or being unavailable due to seasonal closure. Data for the Seneca Casino was obtained by observation only; Casino personnel declined to participate in this study.

5.2 National Restaurant Association Metrics

National revenue statistics from the 2010 Restaurant Operations Report, published by the National Restaurant Association, were utilized to provide national revenue benchmarks. Full-service restaurants are categorized in three categories by check average per person: under \$15, from \$15.00 to \$24.99, and \$25.00 and over. Revenues are expressed as dollars per seat, and presented as lower quartile, median, and upper quartile. Medians are considered "Industry Averages". Table 1 below presents the revenue dollars per seat for the three categories:

Average Check	Lower Quartile	Median	Upper Quartile
Under \$15	\$6,034	\$ 8,827	\$12,718
\$15.00 to \$24.99	\$5,771	\$10,866	\$16,098
\$25.00 and over	\$7,120	\$12,007	\$18,777

Source: *2010 Restaurant Operations Report* , National Restaurant Association

5.3 *Downtown Niagara Falls, New York*

The Downtown market ("Downtown") is generally comprised of independent restaurants, with the most notable exception being the Hard Rock Cafe. Downtown restaurants are highly seasonal, primarily tourist driven, and generally not highly regarded. Restaurant revenues in this submarket are, on average, considerably less than the two Canadian submarkets studied. Even more discouraging, restaurant owners typically are not optimistic about the future of this submarket.

Exhibit 23 presents the competitive restaurant supply for Downtown Niagara Falls, New York. Based on the reported revenues, the resulting restaurant revenues per seat are presented in Table 2 below:

Table 2	
Downtown Niagara Falls, New York	
Restaurant Revenues Per Seat	
Low	\$ 1,636
High	\$17,857
Mean	\$10,360
Median	\$ 7,857
Source: RAS	

Average revenues are lower than Industry Averages, and, according to restaurant owners in the market, trending downward.

5.4 *"Little Italy", Niagara Falls, New York*

"Little Italy" is a small collection of independent restaurants located along Pine Avenue in Niagara Falls, New York. This submarket is primarily driven by local residents, although they do get tourists in the summer. In addition, Canadians comprise from 10 to 25 percent of the patrons in most of the restaurants in this submarket. Generally, most of the restaurants in this market are perceived as relatively inexpensive.

Exhibit 24 presents the competitive restaurant supply for "Little Italy", Niagara Falls, New York. Based on the reported revenues, the resulting restaurant revenues per seat are presented in Table 3 below:

Table 3	
"Little Italy", New York	
Restaurant Revenues Per Seat	
Low	\$ 2,005
High	\$8,696
Mean	\$4,803
Median	\$5,284
Source: RAS	

This submarket average revenues are well below Industry Averages, which is not surprising given the price points of these restaurants.

5.5 Outlet Mall, Niagara Falls, New York

The Outlet Mall of Niagara Falls features over 150 designer outlets. The market is frequented by a broad market, comprised of Canadian shoppers, tourists and local residents. This restaurant submarket currently features three full-service restaurants, although at least two more chain restaurants are planned for the area. Restaurants in this submarket are high volume operations, and are busy throughout the year.

Exhibit 25 presents the competitive restaurant supply for the Outlet Mall Market , Niagara Falls, New York. Based on the reported revenues, the resulting restaurant revenues per seat are presented in Table 4 below:

Table 4	
Outlet Mall Market, New York	
Restaurant Revenues Per Seat	
Low	\$14,054
High	\$21,759
Mean	\$18,202
Median	\$20,552
Source: RAS	

5.6 Seneca Casino, Niagara Falls, New York

The Seneca Casino features a number of full-service restaurants, offering a variety of fare ranging from burgers to steak. Although the Casino is in Niagara Falls, the restaurants within the casino are not truly part of the competitive landscape due to the destination nature of a gaming

resort. Exhibit 26 presents a description of the full-service restaurants within the Casino. Revenue information is not available for these restaurants.

5.7 Clifton Hill, Niagara Falls, Ontario, Canada

The Clifton Hill submarket is characterized by large national chain restaurants, most of which are mid-scale and family friendly. Many major chains are represented in this market, and revenues are generally strong. The business is nearly all tourist-driven, and is therefore quite seasonal.

Exhibit 27 presents the competitive restaurant supply for Clifton Hill, Niagara Falls, Ontario, Canada. Based on the reported revenues, the resulting restaurant revenues per seat are presented in Table 5 below:

Table 5	
Clifton Hill, Niagara Falls, Ontario, Canada	
Restaurant Revenues Per Seat ⁽¹⁾	
Low	\$ 3,844
High	\$24,750
Mean	\$13,049
Median	\$12,867
⁽¹⁾ US dollar equivalents Source: RAS	

5.8 Fallsview, Niagara Falls, Ontario, Canada

The Fallsview submarket is characterized by a mix of mid-scale and upscale high volume restaurants. Revenues are strong, and like Clifton Hill, the business is nearly all tourist driven, and therefore quite seasonal.

Exhibit 28 presents the competitive restaurant supply for Fallsview, Niagara Falls, Ontario, Canada. Based on the reported revenues, the resulting restaurant revenues per seat are presented in Table 6 below:

Table 6	
Fallsview, Niagara Falls, Ontario, Canada	
Restaurant Revenues Per Seat ⁽¹⁾	
Low	\$ 9,783
High	\$29,048
Mean	\$18,666
Median	\$20,265
⁽¹⁾ US dollar equivalents Source: RAS	

5.9 Live Entertainment Market

Niagara Falls features one live entertainment facility plus the offerings in the Seneca Casino. This is in addition to the live entertainment programs promoted by Hard Rock Cafe. Since the Seneca Casino programming is oriented to the casino guest, local benefit from the Casino venues is limited. Seneca entertainment venues include the Seneca Niagara Events Center (seating up to 2,200), Bear's Den Showroom (seating up to 440) and Club 101.

Hard Rock Café sponsors a summer concert series on Old Falls Street adjacent to the restaurant. These events are free and are typically attended by thousands.

The Rapids Theatre recently opened in an old movie theatre on Main Street. The Rapids offers live entertainment and a maximum capacity of 1,700, plus offers the facility for catered events. Since there is no kitchen, all events are catered by outside vendors. The live entertainment calendar is relatively light, and the theatre owners are hoping for more local support of their entertainment offerings.

Exhibit 29 presents the live entertainment venue supply for Niagara Falls, New York.

5.10 Inter-Market Dynamics and Key Observations

A study of the numbers illustrates the obvious: Niagara Falls Canada has a much more robust restaurant business than Niagara Falls New York. However, there are additional key observations from the numbers:

- Despite the limitation of seasonal, tourist based business, the business opportunity for vast improvement in the restaurant business on the New York side is evident.

- Large format mid- and upscale restaurants are likely to be most successful when developed on the New York side.
- The Outlet Mall Market is vibrant and non-seasonal, and has room for additional restaurant growth.
- "Little Italy" restaurants are fueled by local business, and the market is likely to see growth only as a result of Downtown growth, as more locals move to the area to be close to jobs.

5.11 Local Market Demand for Restaurants

Retail markets can be measured in terms of "leakage" and "surplus". For a specific retail segment, "leakage" represents demand emanating from households within a market but supplied outside of the market. "Surplus" represents demand from outside the market drawn in to the market. The following table illustrates the leakage of restaurant demand for the City of Niagara Falls, New York.

Table 7					
Retail Marketplace Profile, Food Services and Drinking Places Only					
Niagara Falls, New York					
Summary Demographics					
2010 Population		50,795			
2010 Households		22,440			
2010 Median Disposable Income		\$28,960			
2010 Per Capita Income		\$20,929			
Industry Summary					
	Demand	Supply	Retail Gap	Surplus / Leakage	Number of
	(Retail Potential)	(Retail Sales)	(Demand - Supply)	Factor	Businesses
Total Retail Trade and Food & Drink (NAICS 44-45, 722)	\$398,209,989	\$636,553,898	-\$238,343,909	-23.0	360
Total Retail Trade (NAICS 44-45)	\$337,724,428	\$597,616,571	-\$259,892,143	-27.8	207
Total Food & Drink (NAICS 722)	\$60,485,561	\$38,937,327	\$21,548,234	21.7	153
Industry Group					
	Demand	Supply	Retail Gap	Surplus / Leakage	Number of
	(Retail Potential)	(Retail Sales)	Retail Gap	Factor	Businesses
Food Services & Drinking Places (NAICS 722)	\$60,485,561	\$38,937,327	\$21,548,234	21.7	153
Full-Service Restaurants (NAICS 7221)	\$40,420,134	\$14,700,769	\$25,719,365	46.7	88
Limited-Service Eating Places (NAICS 7222)	\$16,056,410	\$18,258,724	-\$2,202,314	-6.4	33
Special Food Services (NAICS 7223)	\$794,660	\$4,351,221	-\$3,556,561	-69.1	7
Drinking Places - Alcoholic Beverages (NAICS 7224)	\$3,214,357	\$1,626,613	\$1,587,744	32.8	25
Data Note: Supply (retail sales) estimates sales to consumers by establishments. Sales to businesses are excluded. Demand (retail potential) estimates the expected amount spent by consumers at retail establishments. Supply and demand estimates are in current dollars. The Leakage/Surplus Factor presents a snapshot of retail opportunity. This is a measure of the relationship between supply and demand that ranges from +100 (total leakage) to -100 (total surplus). A positive value represents 'leakage' of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area. The Retail Gap represents the difference between Retail Potential and Retail Sales. ESRI uses the North American Industry Classification System (NAICS) to classify businesses by their primary type of economic activity. Retail establishments are classified into 27 industry groups in the Retail Trade sector, as well as four industry groups within the Food Services & Drinking					
Sources: Esri and Infogroup.					



The full-service restaurants segment shows leakage of over \$25 million dollars, indicating a substantial opportunity for new restaurant development. In addition, drinking places show a leakage of over \$1.5 million dollars.

This is another positive indicator for full-service restaurant development in Niagara Falls, New York.

5.12 Restaurant Company Types

Future restaurant development will be a mix of restaurant company types:

- Independent
- Local multi-unit
- Regional chain
- National chain

Each restaurant company type is described below, and a brief list of advantages and disadvantages for each type is listed:

5.12.1 Independent

Independent restaurants are typically operated by the business owner. These restaurants businesses tend to be most volatile, and subject to the changing taste of the public and most likely to react negatively to an economic downturn.

Major advantages:

- Typically owner operated, giving customers direct contact with owners
- Very flexible in changing menus and pricing
- Able to react to market changes quickly
- Strong neighborhood connections
- Provides local restaurant "feel" and uniqueness

Major disadvantages:

- Relatively weak credit, especially for landlords
- Less able to tolerate negative business cycles
- Limited access to many resources (e.g. bulk purchasing, marketing clout, etc.)

5.12.2 Local Multi-Unit

Local multi-unit operations have between two and ten units, all operating within a limited geographic area, and may include more than one concept. These restaurants tend to have robust management, and many are owned by one individual or family.

Major advantages:

- Able to react to market changes quickly
- Significant owner involvement
- Generally strong revenues
- Access to group purchasing and bundled marketing

Major disadvantages:

- Not typically a credit tenant for landlords
- Often very cash leveraged

5.12.3 Regional Chain

Regional chain restaurants typically have more than ten units and operate in one part of the country. Many regional restaurants are franchisees of national chains, although some are growing restaurants concepts striving to become national.

Major advantages:

- Attractive to landlords; not national credit but generally considered solid credit risk
- Able to attract strong managerial talent
- Generally strong revenues
- Access to group purchasing and bundled marketing

Major disadvantages:

- Typically slow to react with menu or pricing changes
- Somewhat disconnected from neighborhoods
- Not perceived as unique or special

5.12.4 National Chain

National chain restaurants are often public companies and many have a vibrant franchise group.

Major advantages:

- Typically most attractive to landlords
- Strong banking relationships
- Able to attract strong managerial talent
- Generally strong revenues
- Access to group purchasing and bundled marketing

Major disadvantages:

- Slow to react with menu or pricing changes
- Disconnected from neighborhoods
- Not perceived as unique or special

5.13 *Development Opportunity*

Developing new restaurant opportunities in Downtown Niagara will require an aggressive development plan and most likely a mixed-use development, including a hotel, restaurants, retail and residential. In addition, a mid-scale live entertainment venue could be developed, and be an attraction for the Downtown area. A live entertainment venue would bring tourists and locals to the development, and be an anchor for restaurant and retail growth.

Live entertainment venues are attractions and actually create demand for other services while satisfying demand for entertainment. While data from ESRI indicates that over 31 percent of the population within a 30 minute drive of Niagara Falls has attended live music events or theatre in the past year, the real opportunity for live entertainment is as an additional attraction for tourists. A successful live entertainment program could be helpful by extending the length of stay and by encouraging tourism in non-peak periods.

An example of a mid-scale live entertainment venue is World Cafe Live, which currently has two locations; one in Philadelphia and one recently opened in April 2011 in Wilmington, Delaware. World Cafe Live is a very active venue, averaging over 550 ticketed shows per year. This concept features a small venue (100-150 seats) in combination with a restaurant plus a larger venue (capacity of 300-500). World Cafe Live also has an active private events business.

At least two restaurants in a new mixed-use development should be Regional or National chains. The presence of these anchor restaurants, especially in combination with a new hotel and possibly a live entertainment venue, would provide a catalyst to attract additional restaurants, including independent and local multi-unit operators. Such a development, when tied to the Park and combined with other compatible uses, would most likely bring Niagara New York revenues up to Niagara, Canada levels.

However, attracting the anchors in this development would require substantial investment from the developer and most likely public sources. Development incentives such as generous tenant improvement allowances, free and discounted rents, below market financing and marketing dollars would likely be required to convince these anchors to commit to Niagara Falls.

5.14 Strategic Conclusions

The market study indicates that there is an opportunity for vast improvement in the Niagara Falls, New York restaurant market. The relative performance of Niagara Falls Canada and the market demand leakage are strong indicators for restaurant growth. Live entertainment, when combined with restaurant, retail and hotel use in close proximity to the Park, is a catalyst for additional synergistic development and revenue growth.

6. Retail Development Potential and Strategic Recommendations

Our discussion of retail development potential first considers community-wide retail development potential and secondly considers retail development potential in the Tourist Study Area in particular, the latter consisting of neighborhood/convenience retail and tourist-oriented retail.

6.1 *Niagara Falls Community Retail*

To evaluate the potential for additional community-oriented retail development, such as additional community or larger neighborhood shopping centers and additional big box or mid box stores, we consider the existing supply of this retail, performance of these centers, demographics, trade area retail purchasing power in comparison to existing sales levels, and site selection considerations of typical retailers. Our interviews with market participants indicate that the challenge for Niagara Falls is attracting retailers more than it is attracting private developers and investors, many of whom are already present in the market with retail centers and retail land holdings for lease and development.

Exhibit 30 provides retail purchasing power data from ESRI for the primary trade area, the U.S. market within a 5-mile radius of the intersection of Military Road and Niagara Falls Boulevard, in comparison to estimated retail sales. The ESRI data indicates that overall, this market area is not experiencing a leakage of sales dollars outside of the trade area, with leakage typically indicating the potential for additional retail development within the trade area. However, a surplus of retail sales over retail purchases does indicate that customers are being drawn from outside the trade area. In this case of Niagara Falls, this is likely to include residents from outlying Niagara County (north and east), which has a lesser supply of retail development, and also some Canadian shoppers.

Looking within the categories of retail sales indicates a surplus in the General Merchandise Store category, which would include sales at Walmart, Kmart, and Target, among others, indicating that these stores are drawing customers from outside the trade area. There does appear to be leakage of sales outside of the trade area in a number of categories, such as furniture and home furnishings stores, electronics and appliances stores, and to a lesser extent food and beverage stores, as well as leakage in food services and drinking places. Our survey of the existing retail supply indicates that items such as home furnishing and electronics purchases are most likely being made at retail centers, such as Boulevard Consumer Square, in Amherst.

The occupancy of some of the existing retail centers in Niagara Falls also indicates an oversupply of existing retail space, especially in combination with retail development parcels available (LaSalle Center, Military Place, 1340 Military Road). What we would anticipate is re-purposing of some of the Class B centers, including transition to hybrid centers with service and office uses, with new retail development being mid box stores on existing retail development parcels on Military Road, where the traffic counts are highest.

A consolidation of retail tenants into newer space is also likely to benefit the market by bringing up average market rents.

Retailers such as Best Buy, Circuit City, Michaels, Petco, PetSmart, or Bed, Bath & Beyond, might consider Niagara Falls as a secondary location in Western NY when the economy improves and these retailers are again in expansion mode.

The ESRI data indicates that there may be the potential for an additional grocery store in Niagara Falls, and as discussed in the next section, we believe that there may be potential for the right grocery store to be attracted to a more central location in the City of Niagara Falls.

6.2 Niagara Falls Tourist Area & Local Retail

We see the potential for two types of retail development in the Tourist Study Area-- neighborhood/convenience retail and tourist-oriented retail.

6.2.1 Neighborhood / Convenience Retail

With the relatively small resident and employee population within the immediate area, neighborhood retail will need to serve the visitor population as well or be located closer to the denser residential populations north of Pine Avenue.

Some of the retail opportunities we consider viable at the present time are a discount supermarket – mostly likely outside of the immediate Tourist Study Area¹, a drug store retailer – preferably one with convenience food/beverage offerings which would serve the visitor population as well as local residents (Rite Aid, Duane Reade, CVS), and a mini-market which would serve the visitor population and local residents (and preferably be open extended hours). The drug store and mini-mart should be in close proximity to downtown hotels, the State Park entrance, and the casino, with good visibility and within easy walking distance, to attract the visitor population. This retail might be paired with a fast food type restaurant, like Subway, or a sandwich shop with a take-out menu, which would serve the visitor and downtown employee population.

¹ We have identified Price Rite, which has expressed interest in locating in the center of the City of Niagara Falls, as such a supermarket and supplied USAN with their site location criteria and contact information.

6.2.2 Tourist-Oriented Retail

Based on our analysis of tourist expenditures, it appears that a combination of restaurants/bars, take-out food, some entertainment venues, and some impulse retail would appeal to the existing tourists. If done with a sufficient critical mass of tenants in the right location, we believe this concept would be able to attract overnight tourists staying in Niagara Falls, Canada, and serve as an additional destination for visitors. Some sort of destination retail/restaurant center targeted to the Niagara Falls visitor would be appropriate and is what we would recommend pursuing.

The challenges are the seasonal nature of tourism in Niagara Falls, the need to get visitors from the State Park and the Seneca Niagara Casino into this venue, and the need to attract the larger market of overnight visitors in Niagara Falls, Canada, to be able to sustain a critical mass of development. As there are currently limited reasons for area residents to be in downtown Niagara Falls, the venue would need to be an independent draw to attract significantly from the resident population.

The site for this destination retail/restaurant center needs to be directly on the corridor between the State Park and the Seneca Niagara casino, near the major downtown hotels, and have superior visibility.

Further development of pedestrian-scale retail along Third Street (and the northern edge of Niagara Street), where some of the vacant “retail” space discussed earlier exists, is likely to require development filling in the empty blocks between the Casino/State Park/hotels and this area and the destination retail/restaurant center discussed below as a catalyst.

To evaluate the potential for such a concept, we evaluated the size of the existing and potential market segments which might be attracted to such a development, estimated the possible penetration rate for these segments, estimated a reasonable per visitor expenditure for a destination retail/restaurant center concept, and from the resulting sales estimate developed an order of magnitude idea of the appropriate square footage for such a project. Our calculations are presented in Exhibit 31.

We are assuming that the restaurant / live entertainment potential identified in Section 5 would be encompassed within such a concept.²

Market Segments

We considered the following market segments as being the primary potential customers for a destination retail / restaurant center concept located in the Tourist Study Area:

- Overnight hotel guests staying in Niagara Falls, NY
 - (a) Hotel guests in hotels in the downtown/Tourist Study Area, including the Seneca Niagara Casino Hotel

² We do not consider the food & beverage and entertainment components of this concept to be in addition to the potential identified in Section 5, but rather a venue which could combine this potential with other uses to create the maximum possible synergy.

- (b) Hotel guests in hotels in other areas of Niagara Falls
 - Daytrip visitors to Niagara Falls, NY, from the U.S. (based on data from Longwoods Travel Survey)
 - Daytime employees within a 1-mile radius
 - Resident population – initially assumed to be part of daytrip visitors and daytime employees, due to very few other reasons for trips to this area
 - Overnight hotel guests staying in Niagara Falls, Ontario

Penetration Rates

For these market segments we estimated the penetration rate we consider possible for a destination retail / restaurant center in this location, assuming an attractive tenant mix, good design, management and marketing, and provision of parking.

We assumed that 65% of overnight hotel guests in hotels in the downtown/Tourist Study Area would visit the destination retail / restaurant center, given the limited other restaurant and retail options in the area. This penetration rate would require that some guests of the Seneca Niagara Casino Hotel, which represents 43% of the rooms nights sold in the downtown area, be attracted to such a venue. We assumed that 40% of overnight hotel guest in other hotels in Niagara Falls, NY, would visit the destination retail / restaurant center. In addition we estimated that 20% of day trip visitors would visit the destination retail / restaurant center.

Given limited restaurant options for daytime employees, we estimate that 25% of these employees would visit the destination retail / restaurant center, primarily for a quick meal. We have taken into consideration that a significant portion of the downtown employees either work at the Niagara Falls Memorial Hospital (about a mile away; not within walking distance) or are employed by the casino or area hotels, both of which have food service options.

Finally we assumed that 10% of overnight hotel guests staying in Niagara Falls, Ontario, would visit an attractive destination retail / restaurant center on the U.S. side of the river.

Average Expenditures per Visitor

To estimate the potential average expenditure per visitor (not the average expenditure per customer, since not all visitors will make a purchase), we looked at average expenditures per visit for various types of retail in various locations, ranging from purposeful shopping and U.S. and Canadian malls and Fashion Outlets of Niagara Falls to impulse purchases at mall kiosks to estimated average spending at Rouse festival market places when these centers were being developed in the 1990s. A summary of these expenditures is presented in Exhibit 32. Mall and outlet mall expenditures per visitor are in the \$70 to \$100 range; mall kiosk spending per visitor averages \$14; and average spending per

visitor at Rouse festival market places is estimated to be in the \$43 to \$71 range. Rouse estimated that 20% to 25% of visitors made a retail purchase and 50% to 75% made a food purchase.

Taking into account visitor expenditure survey data, and realizing that not all expenditures will be in this venue, we estimated an average expenditure of \$40 per visitor.

For daytime employees we assumed an average expenditure of \$6, based on International Council of Shopping Centers research on office worker retail spending patterns and in particular weekly lunch expenditures.³

Sales Potential and Supportable Retail/Restaurant/Entertainment Square Footage

Assuming the penetration rates and average visitor expenditures outlined above, potential retail/restaurant sales are in the \$86 million +/- range. We would think that average sales per square foot in the \$400 range would be a minimum requirement for this type of venue.⁴ The resulting supportable retail/restaurant/entertainment square footage under these assumptions is in the 200,000 square foot range. In terms of tenant mix, we would anticipate that about two-thirds to three-quarters of the space would be restaurant/bar/entertainment and about one-third to one-quarter of the space would be impulse retail, given conversion rates (% of visitors who purchase) in festival market places and our research on visitor expenditures. The project size and tenant mix will be greatly dependent upon the particular theme concept and anchor tenants (most likely entertainment attractions).

Phasing of the development, for example an initial 100,000 square feet with anchors which have sufficient unique draw, in combination with other development, such as a new hotel to anchor the district, is a possibility.

³ Office Worker Retail Spending Patterns, 2004, International Council of Shopping Centers.

⁴ Exhibit 33 presents summary information on average sales per square foot for various types of retail centers. It should be noted that new development typically requires sales above national averages. We have also considered sales per square foot in some of the area retail centers for our estimate on minimum required sales per square foot.

7. Further Study / Action Recommendations

7.1 Action Plan

Our analysis of retail development potential and strategic recommendations indicate three different types of retail which might be pursued by USAN and the City of Niagara Falls:

- 1) A destination retail / restaurant center concept centrally located in the Tourist Study Area encompassing a combination of restaurants/bars, take-out food, some entertainment venues, and some impulse retail.
- 2) Convenience/neighborhood retail in the Tourist Study Area and a discount supermarket in the downtown area.
- 3) Additional mid-box retail development in the Military Road area.

The next step in the process, once a direction is agreed upon, is to consider what information should be packaged in what format to the appropriate target audiences, which will also need to be defined. We would anticipate that the information, format, and target audiences for the three types of retail development listed above will be very different.

7.2 Mid-Box Retail & Retail in General

While most retail property owners, brokers, and retailers in the Buffalo-Niagara Falls area acknowledge the existence of Canadian shoppers, there is no reliable data on the number of Canadian shoppers and the dollars spent. We believe that retailers are probably underestimating this potential, due to the absence of concrete information.

A license plate survey at selected retail locations (using a selected sample encompassing a range of retail types) would provide data on the percentage of Canadian shoppers and via use of Registry of Motor Vehicles data could also provide data on customer origins. This could be packaged as part of marketing materials for the City of Niagara Falls.