Memorandum

Date: November 1, 2012

To: Marcia Crawley, Director of Development, Eli and Edythe Broad Art Museum

From: Scott Watkins, Anderson Economic Group, LLC

Re: Broad Art Museum Attendance and Economic Development Considerations

Cc:

I. Executive Summary

Purpose

The Eli and Edythe Broad Art Museum at Michigan State University will draw new visitors to the community, creating new opportunity for nearby businesses and attractions. Meeting this opportunity, however, requires that the supply of business and attraction offerings aligns with the demands of those visiting for the museum. Recognizing this, Michigan State University commissioned a market opportunity analysis from AEG. This memo builds on that analysis (as summarized in a memorandum dated October 31, 2012) by specifically considering the supply of retail and entertainment offerings in the market along with the likely new demand that the museum will help generate.

Approach

To assess how well current market supply aligns with likely new-visitor demand we:

1. Inventoried the supply of business and attraction offerings in selected retail and entertainment categories for the local market. This was with business listing data from ESRI, Inc., the City of East Lansing, the Greater Lansing Convention & Visitors Bureau, and other sources.
2. Collected visitor expenditure data from statewide and local sources and established a visitor expenditure profile for the likely visitors to the Broad Art Museum.
3. Completed a qualitative assessment of current market supply and expected visitor demand to identify economic development opportunities with a focus on downtown East Lansing.

Our visitor and expenditure analyses are based on estimate museum attendance for regular exhibits and operations. We do not account for attendance at special events, private functions, or educational programs that are also likely to attract people to the museum and the neighboring market area. These additional attendees will generate some level of expenditures and benefit beyond that quantified here. However, it is difficult to quantify as such events are often irregularly held and are of varying size. The result of not accounting for this is that the presented results provide a conservative measure of likely benefits and opportunity.

Findings

Current Market Supply

1. Downtown East Lansing is a dining, shopping, and entertainment center for the community. The area has a high concentration of coffee shops and cafes, fast and casual dining, drinking places, and book stores, all primarily focused on servicing students and visitors to MSU.
2. There are 206 dining, shopping, entertainment, and accommodation establishments within a 5-minute drive-time of the Broad Art Museum. The majority of these establishments (57%) is food and drink related.
3. The 117 food and drink establishments within 5 minutes of the museum combine for $121.7 million in annual sales, or just over $1 million per establishment. Average sales per establishment in the 5 to 15 minute area is just under $844,000.
4. The 61 non-food retail businesses (clothing, shoes, jewelry, book, hobby, electronics, gifts, and other) within 5-minutes of the museum have average annual sales of $1.8 million. Those in the 5 to 15 minute range have average annual sales of just under $2.0 million per establishment.
5. There are 45 hotels within 15 minutes of the museum, but only five are within the 5-minute drive-time range.

See "Inventory of Market Supply" on page 4 for additional market supply data and discussion. Also see Exhibit 1 on page 9 for an overview of the 5 and 15 minute drive-time areas.

Expected Visitor Demand

6. The Broad Art Museum is expected to draw approximately 150,000 attendees annually for its regular exhibitions and operations. Additional attendance is also likely for special functions, private receptions, and educational programs.
7. We expect approximately 30,000 (or 20% of the total attendance base) will be *net new* visitors who travel to the area specifically for the museum. These visitors are expected to spend an average of $82 per day, thus generating total annual expenditures of $2.46 million in new food and drink, shopping, and transportation related spending.
8. We expect that 60,000 people will visit the museum each year while they are in town for other reasons, and as a result of having the museum as an added attraction they will increase the length of their visit to the area. If each of these visitors spends an additional one-third of a day in the area and spends $27.33 (one-third of the $82 daily expenditure estimate) there will be $2.16 million of new expenditures each year.
9. The remaining 60,000 attendees can be assumed to be substituting the museum for other activities in the area, and thus not generating *net new* economic activity.
10. We also expect that 15,000 (or 10%) of the museum's visitors will stay for one-night at an area hotel as part of their trip. This creates $1.12 million per year in new spending, assuming an average room price of $150 and two people per room.
11. The above totals to $5.75 million in estimated net new annual expenditures, including:
    - $2.1 million for shopping, entertainment, and other retail.
    - $1.4 million for food and drink establishments.

- $1.1 million for transportation related establishments, including fuel and parking.
- $1.1 million for overnight accommodations, primarily hotels.

See “Visitor Expenditure Profile” on page 6 and "Estimated Net New Visitorship and Expenditures" on page 6 for further discussion.

Economic Development Considerations

12. Expenditures made by those visiting the Broad Art Museum will generate new opportunities for existing businesses and potentially new businesses. The key to realizing these opportunities is to ensure there is a supply of goods and services that aligns with the demands of museum visitors.
13. The museum is likely to attract visitors with relatively high incomes, high levels of education, and tastes and preferences that are more refined and upscale relative to the more casual visitor base that East Lansing establishments primarily focus on today. This was covered in more detail in our October 31th memorandum, and should be at the forefront of related economic development efforts.
14. The nearly $2.1 million in possible visitor expenditures for shopping, entertainment, and other retail will best be met by businesses that cater to upper-income individuals. This demand can best be met by boutiques offerings unique and hard-to-find items, locally made items of high-quality, collectibles, and gifts. Current businesses such as La Bodega, Saper Galleries, and Kirabo will meet some of the demand, but opportunity should remain for one or two additional such businesses provided they are located within walking distance of the museum and have a customer-experience that aligns with the expectations of the museum's target audience.
15. East Lansing's food and drink establishments, while many, primarily target college students and casual visitors. The $1.4 million in annual estimated new food and drink expenditures by museum visitors provides an opportunity for restaurants offering a higher-end dining experience, especially one located within a short walk of the museum.
16. Museum visitors seeking overnight accommodations will also create additional opportunity for hotels and other overnight accommodation providers in the area. However, several new hotel sites are being considered across the Lansing area. We do not feel it prudent to recommend further hotel and accommodations beyond what is already being considered.

II. Inventory of Market Supply

The draw of new visitors to East Lansing spurred by the Eli and Edythe Broad Art Museum is likely to create new opportunity for nearby businesses and attractions, but only if their offerings align with the demands of the visitors. To analyze this we have first inventoried businesses most likely to be affected by an increase in visitorship within a five- and fifteen-minute drive-time of the museum.[1]

Downtown East Lansing currently serves as a dining, shopping, and entertainment center for the community. As illustrated by the data in Table 1, "Businesses and Combined Annual Sales by Selected Categories," on page 5, the downtown (inclusive of the entire 5-minute drive-time area around the museum) has a high concentration of coffee shops and cafes, fast and casual dining, drinking places, and book stores. Other retail categories, especially for clothing and office supplies, appear to have a relatively low supply. However, the clothing, gift, office supply, and other such offerings at SBS, Ned's, and other MSU-related bookstores helps to balance the supply with demands.

More specific findings include:

- Of the total 1,270 businesses in the selected categories within 15 minutes of the museum, 206 (16%) are within a 5-minute drive-time. These 206 establishment account for 16.9% of annual sales across the 15-minute drive-time area.
- Among the selected categories within a 5-minute drive of the museum, the largest share of businesses (nearly 20%) falls in the fast casual restaurant segment (i.e. Panera Bread, Cosi, and other moderately-priced, limited-service eating establishments); there are an additional 138 fast-casual establishments within 5 to 15 minutes of the museum.
- The casual dining options within 5-minutes of the museum include Beggar's Banquet, Dublin Square, Harpers Brew Pub, OMI Sushi, Charlie Kangs, and Red Lobster.
- The three fine dining establishments near the museum are The State Room, AI Fushion Sushi and Grill, and Sansu. Fine dining options just over 5 minutes from the museum include Dusty's Cellar, Ukai Japanese Steak House, Troppo, Gilbert & Blakes, and Mitchell's Fish Market.
- The 117 food and drink establishments within 5 minutes of the museum combine for $121.7 million in annual sales, or just over $1 million per establishment. The average sales per establishment for the 5 to 15 minute area is just under $844,000.
- The 61 non-food retail businesses (clothing, shoes, jewelry, book, hobby, electronics, gifts, and other) within 5-minutes of the museum have average annual sales of $1.8 million and those in the 5 to 15 minute range have average annual sales of just under $2.0 million per store.
- The Other Miscellaneous Store Retailers category includes businesses such as Saper Galleries, the Grove Gallery Co-op, and Mackerel Sky located within 5 minutes of the museum.
- Within five minutes of the museum, there are six businesses classified as museums, historical sites, and similar institutions (including the Kresge Art Museum and MSU Beal Botanical Garden); an additional 26 of these establishments are found within a 5 to 15 minute drive of the museum.
- The accommodations segment includes just 5 offerings within 5 minutes of the museum, one of which is the relatively small Wild Goose Inn. There are 40 more hotels within the 5 to 15 minute range. The average annual sales volume for these is about $2.2 million per establishment after accounting for the fact that several of the larger hotels also generate revenues from catering, convention space, and event hosting.

1.Five and fifteen-minute drive-times were chosen as they are reflective of times visitors to the museum might be willing to drive when participating in secondary activities during their stay.

TABLE 1. Businesses and Combined Annual Sales by Selected Categories

	0 - 5 Minutes		5 - 15 Minutes		Total	
Selected Industries*	**Count**	**Ann. Sales ($000)**	**Count**	**Ann. Sales ($000)**	**Count**	**Ann. Sales (000)**
Cafés and Coffee Shops	12	5,815	27	11,080	39	16,895
Fast Food	18	18,440	103	78,728	121	97,168
Fast Casual	42	33,632	138	79,928	180	113,560
Casual Dining	33	56,660	110	134,665	143	187,325
Fine Dining	3	2,460	14	26,100	17	28,560
Drinking Places (Alcoholic Beverages)	9	8,693	31	26,465	40	35,158
Clothing and Shoe Stores	9	5,859	149	351,235	158	357,094
Jewelry, Luggage, and Leather Goods Stores	3	2,618	34	36,112	37	38,730
Book, Periodical, and Music Stores	17	49,243	24	22,780	41	72,023
Sporting Goods, Hobby, and Musical Instrument Stores	13	18,269	48	87,714	61	105,983
Electronics and Appliance Stores	7	14,452	54	237,862	61	252,314
Office Supplies, Stationery, and Gift Stores	4	5,872	41	31,357	45	37,229
Other Miscellaneous Store Retailers	8	14,946	83	89,944	91	104,890
Museums, Historical Sites, and Similar	6	274	26	11,362	32	11,636
Recreational Facilities and Parks	12	6,984	91	97,303	103	104,287
Gasoline Stations	5	23,200	51	176,320	56	199,520
Traveler Accommodation	5	8,331	40	109,014	45	117,345
Total Selected Industries	**206**	**271,748**	**1,064**	**1,607,969**	**1,270**	**1,879,717**

Source: Esri, Inc.; Greater Lansing Convention and Visitors Bureau; City of East Lansing

Analysis: Anderson Economic Group, LLC

**Selected business categories include industries from the retail; accommodation and food services; and arts, entertainment, and recreational facilities industries. These industries were chosen as they represent categories in which spending could likely increase as visitorship to the area increases. They also represent categories where there could reasonably be opportunities for growth in the future given there is sufficient demand.*

III. Assessment of Museum-Visitor Demand

Museum Attendance

The Eli and Edythe Broad Art Museum at Michigan State University is expected to draw approximately 150,000 visitors each year (see our October 31, 2012 memorandum). However, not all of these visitors will be new to the Lansing area as some will live in the area and others who visit the museum will already be in the area for other reasons. Thus, not all of the museum's visitors can be considered sources of new opportunity for area businesses and attractions. Instead, the new opportunity will stem from visitors who would not have come to the area if not for the museum and from those extend their stay to include time for the museum.

Based on surveying and other market research, as also presented in our October 31 memo, we can reasonably estimate that 20 percent of the museum's attendance will be from net new visitors to the Lansing area. We can further estimate that half of the remaining 80 percent of attendance base will be comprised of those who extend the length of their visit in order to spend time at the museum. Finally, we estimate that 10 percent of the total attendees will stay overnight at a hotel in the area as a result of their visit to the museum.

It is important to note that the above estimates are based on responses to a survey in which respondents were reflecting on their current and past knowledge of the market, and not giving consideration to potential future developments and offerings. As additional attractions are added to the market we would expect more attendees to increase the length of their stay, seek overnight accommodations, and increase the frequency with which they visit, thus leading these estimates to be conservative.

Visitor Expenditure Profile

As visitorship to East Lansing increases due to the Broad Art Museum, economic activity generated by tourism will also increase. Such additional economic activity will provide benefits to the area and present opportunity for additional retail, food, accommodations, and entertainment offerings by local businesses.

According to the 2010 Michigan Visitor Profile, the average visitor in Michigan spent $72 per day, not including accommodations. This included approximately $20 for food and drinks; $29 for shopping, entertainment, and other retail; and $23 for transportation. Spending by those who indicated they were museum-goers was 23% higher, putting per person per day spending by museum goers at $25 on food and drinks; $36 on shopping, entertainment, and other retail; and $29 for transportation.[2] Visitor expenditure data from the Greater Lansing Convention and Visitors Bureau 2008 economic impact analysis estimates average daily expenditures for day visitors to be $14 for food and drinks; $17 on shopping, entertainment, and other retail; and $8 for transportation. The report estimates average daily expenditures for overnight visitors to be $30 for food and drinks; $17 for shopping, entertainment, and other retail; and $12 for transportation.

Based on the above, along with the demographic information presented in our October 31, 2012 memo, we estimate that Broad Art Museum visitors will have relatively high daily expenditure levels aligning with their relatively higher income levels. Our estimate is that they will spend approximately $82 per day, of which $37 will be on shopping, entertainment, and other retail; $25 on food and drinks; and $20 on transportation (transportation is assumed to be below state averages due to central location). For those visitors staying overnight, we estimate additional spending of $75 per person per day for hotel accommodations.[3]

Estimated Net New Visitorship and Expenditures

As noted earlier in the discussion on "Museum Attendance" the Broad Art Museum is expected to draw approximately 150,000 attendees annually. Of this total, 20 percent (or 30,000) are expected to be *net new* visitors to the market. Half of the remaining 80 percent (or 60,000) of visitors are expected to visit the museum while in town for other reasons, but as a result of the museum they will increase the length

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2.D.K. Shifflet & Associates, Ltd. 2010 Michigan Visitor Survey, pages 65 and 71.

3.We observed an average cost of $150 per night for hotel accommodations at 3+ star hotels across the area. Assuming an average of two people for overnight stays, this amounts to $75 per person per day in accommodations expenses.

of their visit (or, if they live in the area then the museum will result in them staying in the market instead of traveling elsewhere). Finally, we estimate that approximately 10 percent (or 15,000) of all attendees will seek overnight accommodations as part of their trip. This all helps generate *net new* economic activity in the market.

The scale of new economic activity that can be expected and planned for is, of course, driven by the number of visitors and how much they spend. For this, we can assume that:

- The 30,000 estimated *net new* visitors who travel to the area specifically for the museum will incur a full day of expenditures for food and drink ($25 each); shopping, entertainment, and retail ($37 each); and transportation and fuel costs ($20). This totals to $2.46 million per year assuming that each of these visitors stays for an average of one day.
- The 60,000 visitors who will be spending additional time in the area because of the museum will have some increase in their expenditures for food and retail. To account for this we conservatively estimate that one-third of the average daily expenditures ($12.20 for food, $8.25 for retail, and $6.60 for transportation and fuel) will be attributable to museum visits. This totals to $2.16 million per year.
- The remaining 60,000 attendees can be assumed to be substituting the museum for other activities in the area, and thus not generating *net new* economic activity.
- Finally, the 15,000 visitors expected to seek hotel accommodations will spend an estimated $1.12 million per year for such accommodations. This assumes an average room price of $150 and two people per room.

The above totals to $5.75 million in estimated net new expenditures for the area as a result of annual attendance at the Broad Art Museum. These annual expenditures break down as:

- Nearly $2.1 million for shopping, entertainment, and other retail.
- Over $1.4 million for food and drink establishments.
- Over $1.1 million for transportation related establishments, including fuel and parking.
- Over $1.1 million for overnight accommodations, primarily hotels.

IV. Economic Development Considerations

Given the current business offerings in the downtown area, the demographic attributes of likely museum visitors, and anticipated museum visitor spending, economic development efforts aimed at ensuring the downtown area has an adequate supply of offerings for museum-related increases in demand should consider:

Retail Opportunity. The nearly $2.1 million in possible visitor expenditures for shopping, entertainment, and other retail will best be met by businesses that cater to upper-income individuals. High-end retailers, however, are not likely to consider the local market, so this demand can best be met by boutiques offering unique and hard-to-find items, locally made items of high-quality, collectibles, and gifts.

Current businesses in the area, such as American Apparel, Urban Outfitters, Mad Eagle, Jeanologie, La Bodega, Saper Galleries, Mackerel's, Kirabo, and the Student Bookstore (SBS) will likely capture a share of this retail opportunity, thus limiting the number of new businesses that might be able to open to cater to this market. The new demand should, however, still be sufficient to provide opportunity for one or two additional such businesses provided they are located within walking distance of the museum and have a customer-experience that aligns with the expectations of the museum's target audience.

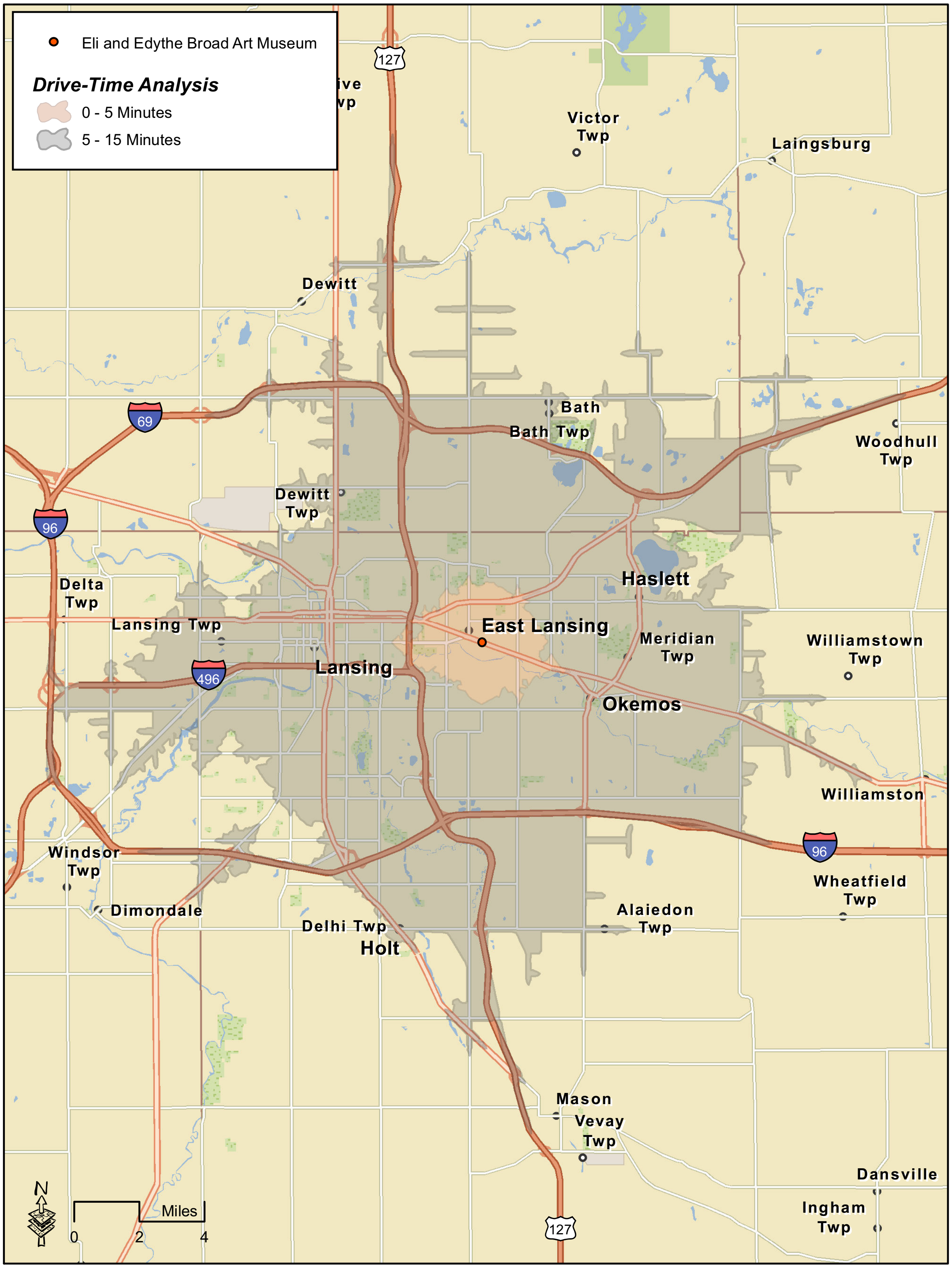
Food and Drink Opportunity. Downtown East Lansing and the rest of the area within a 5-minute drive of the museum is rich with dining and drinking options. The majority of these options, however, target college students and casual visitors who may be in town to visit friends at MSU or to attend a sporting event. This suggests an opportunity for a restaurant that is located closer to the museum and that offers a higher-end dining experience. With $1.4 million in estimated new food and drink establishment expenditures per year, the opportunity for more than one such restaurant is limited, especially if some of the nicer casual options, such as Beggars Banquet, Dublin Square, and Bistro 43 in the Marriott, also attract a share of this new activity. Also of note is that our survey, as presented in the October 31st memo, confirms that likely museum visitors have an interest in fine dining.

Other Opportunity. The museum visitors seeking overnight accommodations will also create additional opportunity for hotels and other overnight accommodation providers in the area. This new demand may help revive plans for a hotel as part of the "City Center II" development site. Other hotel developments for the area have also been discussed, including along the Michigan Avenue Corridor along the Lansing and East Lansing border, in the phase II development at Eastwood Towne Center, and as part of expansion plans for the Lansing City Market site. With these developments currently in different stages of planning we do not feel it prudent to recommend further hotel and accommodations beyond what is already being considered.

V. Cautions and Limitations

This analysis was performed using the most complete market and geographic data available to us during our period of analysis. This included cartographic, geographic, road network, and demographic data from ESRI (www.esri.com), information provided by the Greater Lansing Convention and Visitors Bureau, and information on the market area from a variety of other sources. However, we were not able to account for information that is not publicly available, or that was not specifically provided to us for our use in the analysis. As a result, the information used and the conclusions reached, while based on the best information available to us, should not be relied upon as investment advice or business planning. Further, market conditions change, customer behaviors are widely influenced, data can prove incomplete or misleading, and business practices are outside our control. As such we cannot guarantee the future outcome of any business venture, government policy, legal, or regulatory proceeding.

Exhibit 1. Five- and Fifteen-Minute Drive-Time Areas from the Broad Museum



Source: Esri, Inc.
Analysis: Anderson Economic Group, LLC