Report

Demographic and Real Estate Market Assessment

The Economics of Land Use

Prepared for:

City of Bozeman, Montana

Prepared by:

Economic & Planning Systems, Inc.

January 25, 2018

EPS #173007

Economic & Planning Systems, Inc.
730 17th Street, Suite 630
Denver, CO 80202-3511
303 623 3557 tel
303 623 9049 fax

Denver
Los Angeles
Oakland
Sacramento

www.epsys.com

Table of Contents

Table of Contents (cont.)

List of Tables

List of Figures

1. INTRODUCTION AND SUMMARY OF FINDINGS

Introduction

This report contains an assessment of economic, demographic, and real estate trends in Bozeman to inform the Growth Policy update process. It addresses changing real estate market conditions at the local and national levels, assessments of key economic and demographic trends, and estimates of future land use needs (land demand) to be considered in the Growth Policy update process.

This document is organized into seven Chapters outlined below:

- **Chapter 1 – Introduction and Summary of Findings.**
- **Chapter 2 – Regional Trends and Conditions.** This chapter presents an analysis of economic and demographic trends in Greater Bozeman and Gallatin County including the amount of population and employment growth occurring in each location, and a comparison of the economic composition of each.
- **Chapter 3 – Bozeman Socioeconomics.** This chapter focuses on the socioeconomics of the City of Bozeman including the economic base and MSU enrollment. It also describes the four economic segments present that make Bozeman unique among small cities: higher education, tourism and recreation, health care, and technology.
- **Chapter 4 – Housing Market Trends.** This chapter summarizes housing development trends, housing demographics, affordability indicators, the impact of MSU student rentals, and national trends present in Bozeman.
- **Chapter 5 – Retail Market.** In this chapter, the city's major retailer inventory and spending patterns are examined. It also contains an analysis of the amount and type of retail and commercial space that is supportable in a prototypical B-1 and B-2 zoning area.
- **Chapter 6 – Office and Industrial Market.** This chapter presents data on office and industrial building construction in Greater Bozeman, including the market share for each area. It also includes market indicators such as land costs and rents and qualitative perspective from area real estate experts.
- **Chapter 7 – Land Demand Projections.** A 25-year projection of land demand for housing and commercial development is prepared, including a scenario comparing growth at current average densities to growth at higher densities.

Socioeconomics

1. Bozeman has five economic segments that make it unique and create both opportunities and challenges.

Higher Education - Montana State University (MSU) is the largest employer with approximately 3,000 full- and part-time employees and stable employment levels. MSU research partnerships have resulted in new business creation from technology transfer and spinoffs, a major focus of the Innovation Campus under development.

Technology - Bozeman has long been a highly entrepreneurial place in all sectors of the economy. Several factors have accelerated the growth of technology firms and workers. Bozeman has made several "10 Best" places to live lists which is attracting lifestyle seekers, workers, and entrepreneurs who have the means to choose where they want to live. The purchase of RightNow Technologies by Oracle produced several spinoff firms. Bozeman also has a strong photonics cluster originating from technology transfer from MSU.

Tourism and Recreation - Many national and international tourists travel to and through Bozeman on their way to Yellowstone and Glacier National Parks, Bridger Bowl and Big Sky ski areas, and the many nearby rivers and mountains. Bozeman has a brand and identity that is well known throughout the U.S. and internationally. The Bozeman and Montana brand has also boosted the outdoor products industry, including Simms Fishing, Mystery Ranch (formerly Dana Design), Oboz footwear, and Sitka hunting apparel. The downside of being a tourism gateway is that a high proportion of jobs and job growth is in low wage hospitality sectors.

Health Care - The health care industry added nearly 1,400 wage and salary jobs since 2010, an increase of 34 percent. It is a source of stable employment at a range of wages and skill levels, as people need health care no matter how the rest of the economy is performing. Bozeman Health is the largest private employer with over 1,000 employees, and Bozeman is a major hub for health care in Montana.

Regional Trade Center - Bozeman is a regional trade and service center in Southwest Montana. Bozeman's retail, services, and healthcare businesses serve a trade area of approximately 150 miles. The influx of visitors has helped the community diversify the retail and food and beverage mix as well as strengthen downtown.

2. Bozeman has a level of economic diversity and strength that exceeds many other small western cities, especially those that are not part of a larger metropolitan region.

In many small western cities and rural areas, health care and government are the largest sectors of the economy unless there is a strong energy or extractive sector. In Bozeman, job growth has been robust and diverse including the sectors and clusters noted above: accommodations and food services; construction; health care; retail; manufacturing; and professional services. Countywide, employment has grown at 4.2 percent per year since 2010 (12,000 jobs), and 80 percent of the job growth occurred in Bozeman. This growth is attributed to the quality of life; service in and out of the Bozeman Yellowstone International Airport; spinoffs from local technology and R&D firms; growth of existing firms; and new businesses and entrepreneurs moving to Bozeman.

3. Nearly three-quarters of Gallatin County's population growth is due to in-migration with most of this occurring in Bozeman.

Of the nearly 15,000 new people in Gallatin County from 2010 through 2015, nearly 11,000 are people who moved to Gallatin County. The remaining 4,000 in population growth is from natural increase (births minus deaths). The Census does not report these statistics for geographies smaller than counties, but more than half of the County's population growth occurred within city limits indicating that those proportions are also representative of Bozeman's growth. Strong migration like this indicates that Bozeman is a highly desirable place to live, work, own a business, or retire. It is also an indicator of the strength of local economy.

Some new residents have moved from larger metro areas and brought a job and salary with them. Others, such as retirees or people with investment portfolio income who have other sources of income, are moving to Bozeman for the lifestyle and quality of life. An effect of these two trends is that housing prices become decoupled from local economy and local wage levels. This trend – the influx of outside income and wealth – is occurring in every major amenity-rich and mountain resort community in the Intermountain West.

4. Most of the job growth in Gallatin County and Bozeman (as well as nationally) is below $16.00 per hour, which is generally regarded as below a living wage.

Nearly half of all new jobs created from 2010 through 2016 paid less than $16.00 per hour ($34,000 per year). The primary industries in which these wage levels are present include health care, retail, and accommodations and food services, all of which grew since the recession. Job growth at these wage levels further increases the demand for income restricted affordable and market rate attainable housing. This is a national trend that has been even more pronounced after the Great Recession. Housing affordability is now a national problem as well due to low rates of wage, income and wealth growth over the past decade or more.

Housing Conditions

5. Bozeman's housing market is exhibiting several national trends related to changing preferences and demographic changes.

National and regional consumer preference research has shown an increase in demand for housing in communities and neighborhoods close to jobs, services, dining, shopping, and recreation and leisure activities. Also, the time and money people feel that they have available to maintain large homes and properties has decreased especially as dual income families have become the norm or necessity. A portion of the housing market is moving away from large lot suburban and rural homes to:

- More compact single household development with smaller lot sizes, such as the Traditional Neighborhood Design (TND) style of development. Neighborhoods such as Stapleton in Denver, CO; Josephine Crossing in Billings, MT; and Valley West in Bozeman are examples of TND housing developments.
- Increased demand for rental housing both for affordability and lifestyle preference reasons, especially among the 18 to 34-year-old population.

- Increased demand for more affordable and lower maintenance housing by all age groups including the retiring Baby Boom generation.
- Increased demand for downtown locations and original neighborhoods, as exhibited by the rise in housing redevelopment and infill in the original Bozeman neighborhoods and similar neighborhoods in other desirable cities nationwide. Over 100 new homes have been built in Downtown area neighborhoods since 2010, and at least another 100 in the downtown core (the B-3 zoning district).

6. Housing affordability is a growing issue in Bozeman and the Gallatin Valley that is negatively affecting quality of life and may affect employee attraction and retention.

As of August 2017, the median home price in Bozeman was $398,000 up from $245,000 as the recovery from the Great Recession began with annual appreciation rates over 10 percent per year over the past five years. To afford the median priced home in Bozeman at the 30 percent of income affordability standard, a household needs to earn at least $68,400 per year or $32.00 per hour for one earner. The median household income for owner households is currently about $68,000 indicating that overall home prices are still in line with incomes at this broad statistical level. These figures however do not account for the quality of the housing available at this price. In addition, it is the rapid increase in home values that people are experiencing especially since wages in incomes have not kept pace with housing cost increases.

Home prices in Belgrade, Livingston, and Three Forks have also increased at 10 to 12 percent per year over the same time period. Living in outlying areas may reduce amounts paid for housing but increases costs for transportation that may offset much of the perceived cost savings of locating outside of Bozeman.

7. Bozeman has a tight housing market and should consider strategies to increase the supply of housing to sustain its workforce.

If housing production does not keep pace with job growth, student growth, second home demand, and housing occupied by retirees, it will constrain the labor market. While Bozeman is one of the largest cities in Montana, it is still a small city with a small labor pool compared to larger metro areas with a larger and deeper talent pool and more career mobility options. Fortunately, Bozeman has readily developable land to the south, west and northwest and east that can accommodate significant job and housing growth.

Retail Conditions

8. Bozeman is the primary retail destination in Southwest Montana. Retailers in the city serve a local trade area of approximately 100,000 people in the Gallatin Valley plus a 150-mile radius in Southwest Montana. However, large scale retail may not grow substantially in the next 5 to 10 years.

Retail located in Bozeman serves the City population of 42,000 plus the Gallatin Valley with another 60,000 people, and outlying areas of Southwest Montana. At least a third of retail sales in Bozeman are estimated to come from outside this Gallatin Valley local trade area from Southwest Montana and from visitors/tourists. The city's trade area has however shrunk since Walmart, Costco, and Target located in Helena several years ago.

With the contraction in the retail market due to the growth of e-commerce, there are fewer opportunities to expand retail. In addition, demographic changes are favoring less retail consumption and a shift to the food and beverage market. Most of the national 'big box' retailers that are still active and expanding are already present in Bozeman—such as Costco, Walmart, Lowes, Home Depot, Target, and Kohls. Thus, there are few other store chains left that would expand to Bozeman. Looking further out however, new stores and concepts do appear in the market from time to time, and Bozeman will be an attractive location for them. However, we do not expect the demand for these types of sites and properties to increase substantially over the next 10 years.

It is likely that as Belgrade and other surrounding communities grow, they will reach a large enough size and support their own retail base at least for community-serving retail (less so for regional retail). Given that there is no sales tax in Montana and therefore not a large fiscal benefit to siting new retailers – and that Bozeman already has the largest share of the regional retail market – retail development and recruitment does not need to be a priority for the City.

9. There is demand for office space in Bozeman but it is difficult for developers to build new supply.

Gallatin County added over 1,600 jobs in professional services since 2005, with at least 80 percent of that occurring in Bozeman. Similarly, Bozeman accounted for 80 percent of the total office construction in Bozeman, Belgrade, and Four Corners combined. There is demand for office space, but it is difficult for the market to respond. The bulk of the market is small firms looking for about 1,000 to 5,000 square feet. Building large speculative office buildings is therefore risky due to the large number of tenants needed to fill a building. Building smaller buildings is costlier as some costs decrease per square foot with larger buildings. Land and construction costs in Bozeman require high rents (over $20.00 per square foot) to make an office building financially feasible, which is high for small local businesses.

Downtown is one of the most desirable office locations in the city because of the proximity of other firms plus restaurant amenities and the walkable and bikeable environment. The B-1 zoning areas can meet some of the office demand as second floor space. However, the strength of the residential market may be outcompeting office in these areas.

10. Bozeman has lost significant market share for large industrial buildings and cost-sensitive users of industrial space.

Over past 16 years, the Greater Bozeman market added 1.9 million square feet of industrial space. Over half of this was in Belgrade and nearly 40 percent was in the Four Corners area. Bozeman captured only 10 percent of the industrial market. The land consumptive nature of many industrial uses coupled with land and development costs dictate that Bozeman is no longer competitive for many larger heavier industrial uses.

Bozeman should therefore focus on higher value industrial businesses such as light and high skilled manufacturing, R&D, and producers of high value specialty products. Some industrial jobs pay living wages, so there is a benefit to attracting them to a community. Also, there is still demand and interest for industrial development in Bozeman from firms that want to be closer to the labor pool and be more associated with the Bozeman brand. Growth Projections

Chapter 7 of this report provides estimates of land that will be needed to support the next 25 to 30 years of growth in and around the City of Bozeman. Forecasts and projections are by their nature estimates. They are to be used in the process of thinking about the vision for the future of Bozeman and the Gallatin Valley and how it may evolve and grow over the next 25 years. These projections are not a statement that certain lands will be developed; they are estimates of the land needed to support continued growth based on population and job growth trends over the past 15 years. The Growth Policy Update process will gather input from the public on how, where, and if the City should grow and the goals, objectives, and policies that will shape and manage future growth.

11. If current trends continue even at a more moderate pace, Gallatin County will grow by nearly 55,000 people from 2017 through 2045 with about half of the growth likely to occur in the City of Bozeman.

Job growth will drive most of population growth, and 42,000 new jobs are projected over this time period (**Table ES-1**). Projected job growth is 1,500 jobs per year over the roughly 25-year projection tapering from 1,700 jobs per year in the near term down to 1,300 per year in the outer years of the projection. To support the projected job growth in all of Gallatin County, a population increase of nearly 55,000 is required or almost 2,000 people per year at an annual rate of 1.52 percent. From 2000 through 2016, Gallatin County added an average of 2,200 people each year.

Table ES-1
Gallatin County Population and Employment Projection

						Change 2017-2045		
Gallatin County	**2017**	**2020**	**2030**	**2040**	**2045**	**Total**	**Annual**	**Growth Rate**
Population	105,000	111,700	133,100	151,200	159,900	54,900	1,961	1.5%
Employment	80,400	85,600	101,900	115,800	122,500	42,100	1,504	1.5%

Source: Economic & Planning Systems

As a municipality, Bozeman has the tools to provide water and sewer service at the City scale. Smaller districts in the unincorporated County do not have the same financial resources to provide these services which will limit the amount of growth that occurs in unincorporated areas.

12. Bozeman has consistently accounted for about half of the population and housing growth in Gallatin County, and the projections in this report assume that this trend continues. Bozeman is also expected to continue to account for a large share of the retail, office, major employer, and hospitality markets going forward.

With Bozeman capturing approximately half of the countywide housing demand, this projection estimates demand for 12,700 new housing units in Bozeman over the 2017 through 2045 time period (**Table ES-2**). On an annual basis, construction is projected at approximately 450 units per year on average compared to 600 units per year over the past 10 years.

Table ES-2
Bozeman's Projected Demand for Housing and Commercial Building Space

	New Demand				Change 2017-2045	
Bozeman	**2017-2020**	**2021-2030**	**2031-2040**	**2041-2045**	**Total**	**Annual**
Housing Units	1,570	4,950	4,210	2,020	12,750	455
Annual	*523*	*495*	*421*	*404*		
Commercial Sq. Ft.						
Office	197,000	652,000	570,000	270,000	1,689,000	60,000
Industrial/Wareshouse	60,000	183,000	154,000	75,000	472,000	17,000
Retail	201,000	580,000	438,000	202,000	1,421,000	51,000
Restaurant and Hotel	138,000	421,000	365,000	187,000	1,111,000	40,000
Institutional (Govt., Medical, Education)	163,000	607,000	555,000	253,000	1,578,000	56,000
Total	**759,000**	**2,443,000**	**2,082,000**	**987,000**	**6,271,000**	**224,000**

Source: Economic & Planning Systems

Nonresidential construction demand in Bozeman is projected to be 6.3 million square feet from 2017 through 2045 (**Table ES-2**). For office development, Bozeman is projected to maintain its current market share of 80 percent of the Gallatin County office market totaling 1.7 million square feet from during this time. The estimated share of the industrial and warehousing market is lower, at 10 percent based on the higher land costs in the city and the growth in industrial space in Four Corners, Belgrade, and Manhattan. Industrial demand in Bozeman is estimated at nearly 500,000 square feet for the planning projection period. In the retail, restaurant, and hotel markets, Bozeman is expected to continue to be a major regional trade and services hub for Southwest Montana, and capture 70 percent of the retail market countywide with 1.4 million square feet of retail demand projected. Likewise, for government, education, and health care, Bozeman is projected to capture 75 percent of the demand in these sectors.

Land Demand and Supply Considerations

13. Projected land demand for the 2017 to 2045 time period ranges from 2,600 to 3,900 acres, with housing demand being the primary driver of land demand. Residential development formats will have the most influence on the form of the city and the amount of land needed to meet market demand.

The baseline projection of land demand projects residential land demand at 3,100 acres on current estimated development densities (units per acre) ranging from 3.0 units per acre (gross density including right of way and public spaces) for single household detached units to 20 units per acre on average for multifamily development (**Table ES-3**). Three units per acre for single household detached homes is an average net lot size of 7,100 square feet (0.16 ac.). A more compact development scenario was also prepared with higher residential densities; single household detached homes are assumed to be 5.0 units per acre gross density which translates to an average lot size of 4,300 square feet. The compact scenario projects residential land demand at 1,800 acres. In all cases, a 50 percent planning adjustment is added to allow for healthy market competition and land use planning flexibility. Residential land demand comprises 70 to 80 percent of total land demand in the higher density and lower density scenarios, respectively.

Table ES-3
Summary of Land Demand Projections

	2017-2045 Land Demand			
Land Use	**Baseline**	**Density**	**Higher Density**	**Density**
Residential				
Single-Family (Detached)	1,486	3.0 units/ac.	891	5.0 units/ac.
Townhomes (Attached)	212	6.0 units/ac.	127	10.0 units/ac.
Duplex (2 units)	318	4.0 units/ac.	159	8.0 units/ac.
Multifamily (Greater than 3 units)	64	20.0 units/ac.	51	25.0 units/ac.
Subtotal	**2,080**		**1,229**	
Planning Adjustment (+50%)	**1,040**		**614**	
Total	**3,120**		**1,843**	
Commercial				
Office	130	0.30 FAR	130	0.30 FAR
Industrial/Flex Space	75	0.15 FAR	75	0.15 FAR
Retail	135	0.25 FAR	135	0.25 FAR
Accommodation and Food Services	50	0.50 FAR	50	0.50 FAR
Institutional	115	0.30 FAR	115	0.30 FAR
Subtotal	**505**		**505**	
Planning Adjustment (+50%)	**253**		**253**	
Total	**758**		**758**	
Total	**3,878**		**2,601**	
Square Miles (640 ac. per section)	**6.1**		**4.1**	

Source: Economic & Planning Systems

Commercial development densities were held constant as they will be dependent on market preferences for surface parking—which is costly to develop. On average, commercial rents and values do not make structured parking financially feasible in Bozeman. Some high value areas such as Downtown and around major employers could support structured parking that will allow for higher commercial development densities. Additional access using good bicycle and pedestrian facilities can also reduce parking demand. The 0.30 FAR assumption for office space is still higher than typical suburban densities and reflects the influence of high land costs in Bozeman.

14. The City's zoning is flexible in terms of allowable land uses making it impractical to predict supply and demand by zoning district. Broad conclusions and considerations on the City's land supply are offered below.

Residential Land

Most of the projected market demand will be in the residential market with an estimated 1,800 to 3,100 acres in demand over the 2017 through 2045 time period. The current supply is approximately 1,300 acres or 40 to 70 percent of the projected demand. The Growth Policy process will need to look in more detail at the remaining supply of residential land to determine how much of the existing supply can realistically meet future demand compared to the need to annex new land for development.

Industrial Land

The North Park properties are an important opportunity for the City to expand the supply of employment and industrial land. Roughly 150 acres in the North Park area are owned by the State of Montana in the school land trust. The State has leased its holdings to a master developer for eventual development, although there are transportation access and utility infrastructure hurdles that need to be addressed. North Park is well-located for industrial development, but also for other employment uses including R&D and office. North Park may be the City's best current opportunity for expanding employment lands within its current incorporated boundary.

Another large area of industrial land (at least 150 acres after deducting right-of-way) is the Idaho Pole property between I-90 and the railroad, northeast of Downtown. There have been concepts circulated in the community to redevelop the Idaho Pole property as housing and mixed use. The Growth Policy process should consider if this area should remain industrial or transition to housing and other types of employment. The Growth Policy process could consider adding to the supply of industrial land, particularly if the Idaho Pole property is rezoned. Adding new industrial land that does not involve redevelopment would be absorbed more easily by the market than a site with redevelopment costs and potential environmental remediation costs.

Employment Land

Bozeman will benefit from having land for high quality office and R&D development. These lands need to be well located and close to mixed use and lifestyle amenities such as restaurants and limited retail and services, and be accessible by car, bicycle, and by foot. The high cost, and lack of supply, of office and other space for small and new businesses could constrain the entrepreneurial sector. Supporting incubator space and the MSU Technology Park will be important considerations.

Retail Land

While the retail market is in transition, a portion of the retail market will continue to expand with the growing population. One approach would be to designate the North 19th and Huffine corridors to continue as the large scale regional retail locations, and to allow for continued neighborhood and community retail areas in locations where housing development is expected. Any new B-1 and B-2 areas may need to be scaled down in size from previous land use and zoning designations as described below.

15. B-1 Neighborhood Business District and B-2 Community Business District zoning can be adjusted to better align with the real estate market and household density needs of retail development.

B-1 Neighborhood Business District Zoning

The assumption needs to be reexamined that a B-1 commercial center serves a half-mile radius trade area. In many areas, housing densities and the resulting household expenditure potentials are not high enough to generate the demand needed to support these neighborhood retail centers. B-1 neighborhood centers start to become more viable—assuming a half-mile trade area—at an estimated net density of 8 dwelling units per acre, which is significantly denser than the original Bozeman neighborhoods and new development. If a larger trade area is acceptable, the required household density can be lower.

The success of any individual B-1 area will always depend on the strength and quality of the business mix, the specific location, and surrounding demographics. Some B-1s have been successful because of their location on an arterial road (visibility and access) or close to a major demand driver such as MSU.

B-1 zoning is still important because it can serve a variety of community and neighborhood needs besides daily shopping and neighborhood dining. There is demand for small office and studio space, childcare facilities, and health and wellness businesses. Having a diverse business mix within neighborhoods can enhance quality of life. This flexibility of uses should be maintained in the B-1 areas.

B-2 Zoning

B-2 Districts are intended to include a mix of larger community oriented retail/commercial space serving a larger two to three-mile trade area. Traditionally, community shopping centers are 100,000 to 150,000 square feet in size and are anchored by a grocery store. New grocery stores begin at about 50,000 to 60,000 square feet.

Some B-2 zoning areas can accommodate 500,000 square feet or more of retail/commercial development. This was the size of the "power center" development format that emerged in the early 2000s when retail was expanding rapidly. Given the transition of the retail market and the growth of e-commerce, it is not realistic to expect some B-2 areas to build out entirely as retail.

Like B-1 areas, B-2 areas also allow for numerous other commercial uses. This flexibility should be maintained, as these areas can also support office development that is in demand, as well as other services.

Also like B-1 areas, adding additional housing density near or even in B-2 zoning areas can benefit retail development. The City may want to consider more flexibility for high density residential development in B-2 zoning areas. Currently, it is only allowed as a conditional use if it is on the ground floor. Some limitations on residential development could include the following:

- Limited to a percentage of land area; and/or
- May not front the arterial streets or hard corner (the best retail/commercial locations).

16. It is challenging to establish new retail districts, especially at the neighborhood level. Strategies from other cities identified for strengthening neighborhood retail are focused more on revitalizing existing retail districts rather than creating new ones.

Many cities work to attract large anchor retailers and to keep their retail tenant inventory and building stock up to date. These efforts address larger scale retail needs at the city and regional level to reduce sales and sales tax leakage due to competition with surrounding communities. The approaches to encouraging neighborhood retail or business growth are often linked to broader economic development programs and are very different from national tenant recruitment and incentive-based approaches. In Portland, OR, the City partners with other economic and community development groups to support existing local business districts through marketing, grants, technical assistance, and sometimes incentives through tax increment financing (TIF). The program is focused mainly on existing business districts especially in areas in need of reinvestment and revitalization.

Like Bozeman, Fort Collins, CO has several neighborhood commercial areas in its land use plan and zoning. Fort Collins has also struggled to attract commercial development to these areas. Fort Collins staff has observed that as it is difficult to create new un-anchored retail locations without significant housing density. In Fort Collins, major retailers look for locations on two key commercial arterials, and smaller tenants follow the larger anchor businesses. So far, there has not been any significant smaller-scale retail/commercial development outside of the historic Downtown or major commercial corridors. Fort Collins has a similar entrepreneurial climate, and has a revolving loan fund to support new business creation.

THIS PAGE INTENTIONALLY LEFT BLANK

2. REGIONAL TRENDS AND CONDITIONS

This chapter provides an overview of economic and demographic trends and conditions in Greater Bozeman and Gallatin County. These trends and conditions are also summarized for major cities and towns in the County and include the following:

- Bozeman
- Belgrade
- Three Forks
- Manhattan
- West Yellowstone

Demographics

Bozeman is one of the fastest growing places in the nation. Between 2000 and 2016, the City added approximately 17,000 new residents, which translates to a growth rate of nearly 1,100 new residents per year or an annual growth rate of 3.0 percent (**Table 1**). While regional population growth slowed during the Great Recession between 2008 and 2010, it has quickly surpassed pre-recession levels. Growth rates since 2014 have averaged approximately 4.7 per year or roughly 1,800 new residents per year.

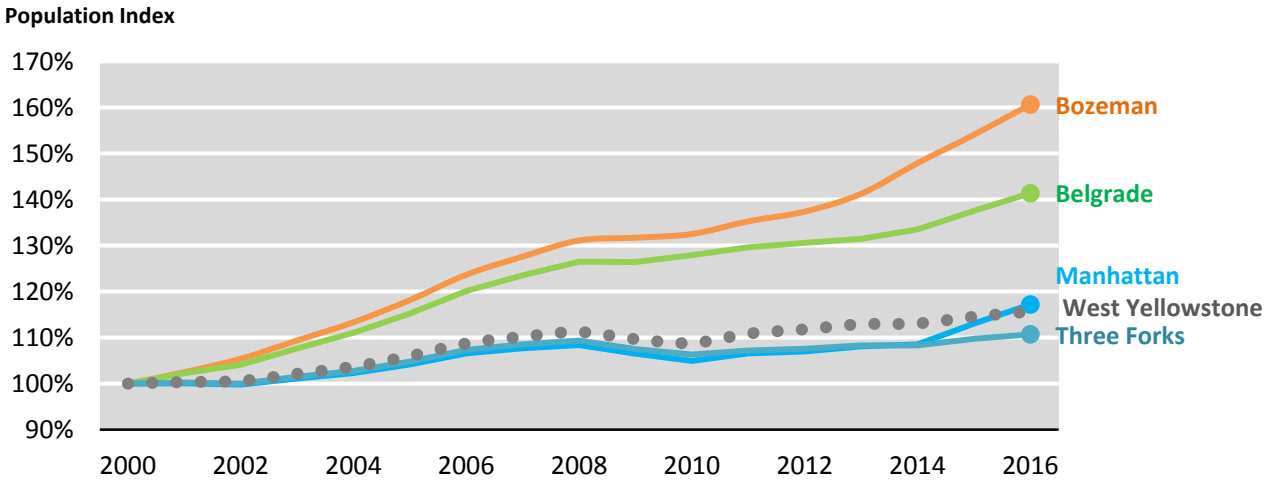
Table 1
Population Trends

Description	2000	2005	2010	2016	2000-2016 Total	2000-2016 Ann. #	2000-2016 Ann. %
Bozeman	28,171	33,280	37,326	45,250	17,079	1,067	3.0%
Belgrade	5,839	6,728	7,469	8,254	2,415	151	2.2%
Three Forks	1,756	1,840	1,867	1,944	188	12	0.6%
Manhattan	1,443	1,503	1,514	1,691	248	16	1.0%
West Yellowstone	1,170	1,240	1,273	1,353	183	11	0.9%
Rest of County	29,996	35,719	40,182	46,010	16,014	1,001	2.7%
Gallatin County	**68,375**	**80,310**	**89,631**	**104,502**	**36,127**	**2,258**	**2.7%**
Montana	**903,773**	**940,102**	**990,641**	**1,042,520**	**138,747**	**8,672**	**0.9%**

Source: U.S. Census Intercensal Population Estimates; Economic & Planning Systems

The Gallatin Valley is evolving from a rural to a more urban region. The surrounding communities, such as Belgrade and unincorporated areas in Gallatin County, have also experienced significant growth (**Table 2, Figure 1**). The Gallatin Valley (a roughly 10-mile east and south to 15-mile west distance of Bozeman depending on topography) has a population of approximately 100,000 people. Every 10 years, the U.S. Census updates the urbanized and metropolitan area designations, defined as areas with more than 50,000 people and a population density in a core area of at least 1,000 people per square mile. Based on the region's growth, the Gallatin Valley may be designated as an urbanized area in 2020. This designation may make the region eligible to form a metropolitan planning organization (MPO) to carry out regional transportation planning and to receive federal transportation planning and construction funding.

Figure 1
Population Index, 2000-2016



Source: U.S. Census Intercensal Population Estimates; Economic & Planning Systems

Approximately 43 percent of the Gallatin County population resides in Bozeman (**Table 2**). Bozeman is also the economic hub of the County and represents approximately 77 percent of total County employment. The median household income in Bozeman is nearly $46,000 per year, which is slightly lower than the countywide average of approximately $55,500. Some of the differences are attributed to the large student population in Bozeman which brings down the median. When income figures are examined for renters and owners, Bozeman's household income is more similar to countywide figures. Owner households in Bozeman have a median household income of $68,000 compared to the County median of $71,000. Just outside of Bozeman in the unincorporated area, there are neighborhoods with large high-end homes and luxury ranches where household incomes are higher.

The presence of Montana State University directly impacts the general demographics of Bozeman. Incomes, the average age, and average household size in Bozeman are all lower than the County as a whole. In addition, the proportion of renter households is significantly higher than in the rest of the County.

Table 2
Gallatin County Demographic Summary

Description	Bozeman	Belgrade	Four Corners	Manhattan	Gallatin County
Population					
Total (2016)	45,250	8,254	3,406 [1]	1,691	104,502
% of County Population	*43%*	*8%*	*3%*	*2%*	*100%*
% of County Jobs (2014)	*77%*	*7%*	*7%*	*1%*	*100%*
Household Income					
Owner Households	$68,282	$65,417	$84,881	$59,453	$71,022
Renter Households	$33,887	$31,136	$48,250	$40,268	$35,014
All Households	$45,729	$47,379	$78,142	$52,135	$55,553
Household Characteristics					
Median Age	27.2	29.0	36.0	42.8	33.2
Avg. HH Size	2.22	2.58	2.74	2.18	2.39
Owner HHs (% of Total)	44%	59%	81%	73%	62%
Renter HHs (% of Total)	56%	41%	19%	27%	39%

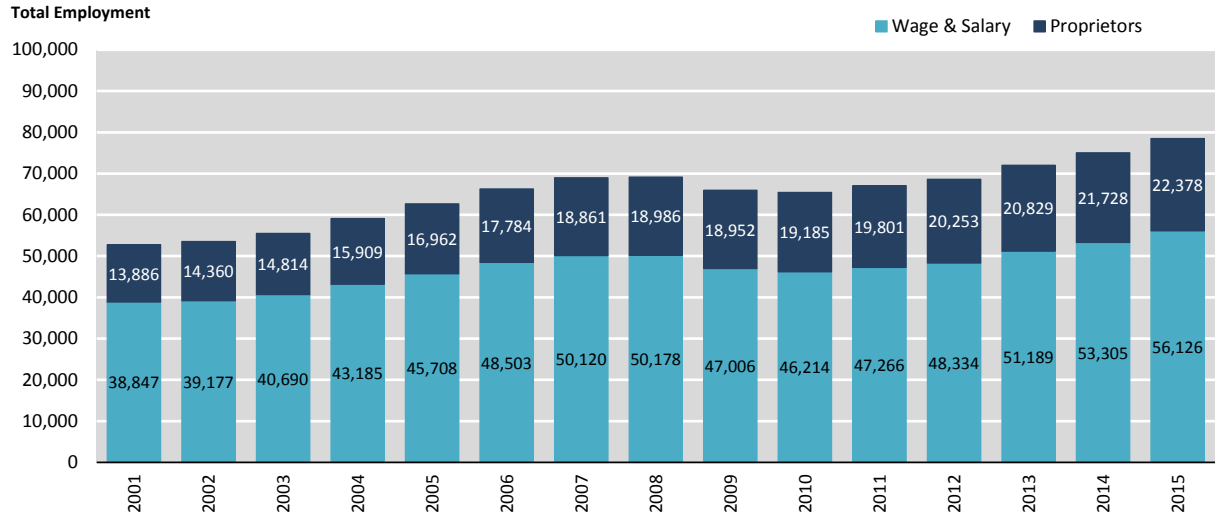
[1] 2011-2015 American Community Survey 5-Year Estimates
Source: U.S. Census Bureau; 2011-2015 American Community Survey 5-Year Estimates; LEHD Origin-Destination Employment Statistics; Economic & Planning Systems

Employment

Employment in Gallatin County has increased by approximately 26,000 jobs since 2001, which equates to a growth rate of 2.9 percent per year (**Figure 2**). Between 2001 and 2015, the largest gains in employment occurred in Real Estate and Rental and Leasing (3,039 job), Professional, Scientific and Technical Services (2,984 jobs), Accommodation and Food Services (2,646 jobs), Health Care and Social Assistance (2,412 jobs), Retail Trade (2,349 jobs), and Construction (2,092 jobs) (**Table 3**).

These employment statistics include both wage and salary and proprietor jobs. Proprietors employment (self-employed) comprises roughly 25 to 30 percent of the jobs in Gallatin County. Proprietors are concentrated mainly in the Construction, Real Estate, and Professional Services Industries.

Figure 2
Gallatin County Employment, 2001-2015



Source: BEA; Economic & Planning Systems

Table 3
Gallatin County Employment Trends, 2001-2015

Description	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2001-2015 Total	2001-2015 Ann. #	2001-2015 Ann. %
Employement (Wage & Salary and Proprietors)																		
Forestry, fishing, and related activities	420	503	451	479	497	480	520	596	540	527	575	620	(D)	679	704	284	20	3.8%
Mining, quarrying, and oil and gas extraction	174	132	139	140	188	354	417	463	393	497	482	688	658	644	598	424	30	9.2%
Utilities	(D)	72	67	84	96	101	108	112	114	109	108	115	110	108	118	46 [1]	4 [1]	3.9% [1]
Construction	5,225	5,563	6,286	6,976	8,034	8,991	9,225	7,856	6,181	5,605	5,659	5,740	6,385	6,827	7,317	2,092	149	2.4%
Manufacturing	2,908	2,631	2,508	2,433	2,540	2,857	3,049	3,000	2,757	2,646	2,748	2,829	3,231	3,417	3,621	713	51	1.6%
Wholesale trade	1,359	1,374	1,357	1,494	1,577	1,635	1,715	1,740	1,673	1,700	1,680	1,774	1,941	1,905	2,082	723	52	3.1%
Retail trade	7,067	7,250	7,412	8,020	8,360	8,455	8,986	9,015	8,349	8,121	8,392	8,447	8,682	9,001	9,416	2,349	168	2.1%
Transportation and warehousing	(D)	1,042	1,046	1,066	1,128	1,385	1,402	1,451	1,303	1,262	1,301	1,427	1,524	1,634	1,696	654	50	3.8%
Information	695	692	695	834	927	903	919	939	876	896	968	966	956	860	998	303	22	2.6%
Finance and insurance	1,449	1,585	1,654	1,731	1,854	1,931	2,086	2,216	2,385	2,378	2,545	2,525	2,499	2,508	2,561	1,112	79	4.2%
Real estate and rental and leasing	2,727	2,843	3,037	3,426	3,958	4,362	4,687	4,749	4,710	4,834	5,007	4,982	5,153	5,496	5,766	3,039	217	5.5%
Professional, scientific, and technical services	3,966	3,917	4,063	4,450	4,800	5,345	5,914	6,058	5,704	5,729	5,826	5,983	6,390	6,614	6,950	2,984	213	4.1%
Management of companies and enterprises	43	45	48	40	62	50	61	101	108	199	211	218	240	280	322	279	20	15.5%
Admin. and support and waste mgmt. and remediation srvcs.	1,645	1,707	1,791	2,037	2,140	2,354	2,343	2,456	2,262	2,289	2,299	2,307	2,491	2,671	2,851	1,206	86	4.0%
Educational services	646	656	697	745	830	994	979	1,067	1,090	1,124	1,191	1,252	1,307	1,436	1,494	848	61	6.2%
Health care and social assistance	3,655	3,846	3,905	4,148	4,340	4,609	4,414	4,639	4,872	5,077	5,201	5,520	5,667	5,813	6,067	2,412	172	3.7%
Arts, entertainment, and recreation	1,808	1,916	1,937	2,036	2,134	2,284	2,513	2,647	2,530	2,517	2,651	2,683	2,728	2,871	2,931	1,123	80	3.5%
Accommodation and food services	5,165	5,394	5,587	5,626	5,685	5,841	5,938	6,085	5,907	5,845	6,041	6,316	6,870	7,347	7,811	2,646	189	3.0%
Other services (except public administration)	2,652	2,785	2,904	2,979	3,151	3,161	3,189	3,171	3,112	2,993	3,159	3,219	(D)	3,584	3,722	1,070	76	2.5%
Government and government enterprises	8,682	8,147	8,592	9,081	9,167	9,051	9,397	9,644	9,917	9,851	9,770	9,660	9,867	10,014	10,144	1,462	104	1.1%
Farm employment	1,405	1,437	1,328	1,269	1,202	1,144	1,119	1,159	1,175	1,200	1,253	1,316	1,331	1,324	1,335	-70	-5	-0.4%
Total	**52,733**	**53,537**	**55,504**	**59,094**	**62,670**	**66,287**	**68,981**	**69,164**	**65,958**	**65,399**	**67,067**	**68,587**	**72,018**	**75,033**	**78,504**	**25,771**	**1,841**	**2.9%**

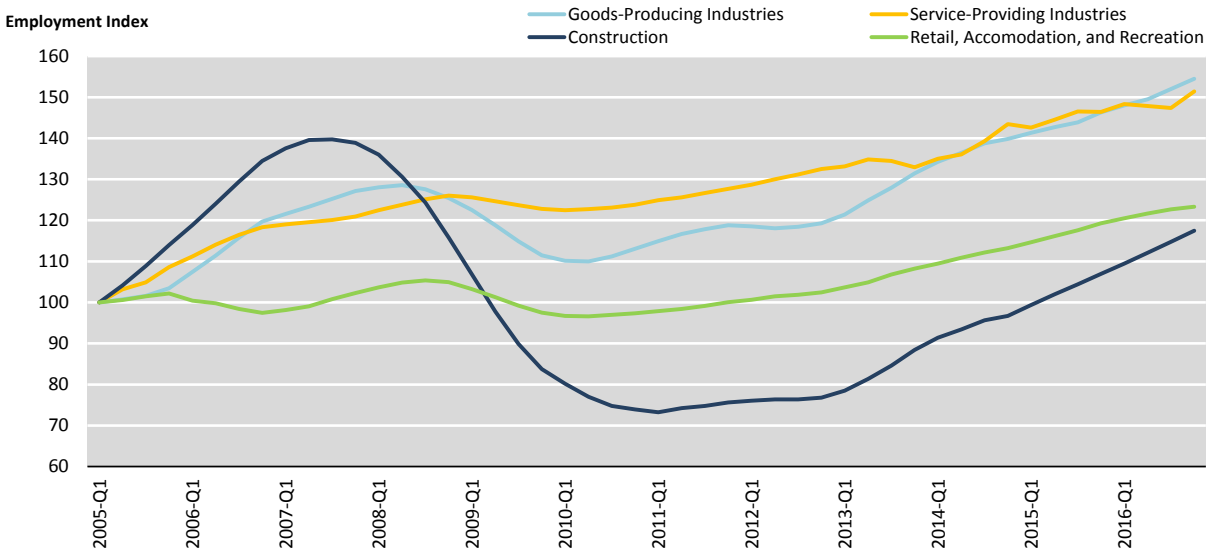
[Note] The estimates of employment for 2001-2006 are based on the 2002 North American Industry Classification System (NAICS). The estimates for 2007-2010 are based on the 2007 NAICS. The estimates for 2011 forw ard are based on the 2012 NAICS.
[1] 2002-2015
(D) Not show n to avoid disclosure of confidential information, but the estimates for this item are included in the totals.
Source: Bureau of Economic Analysis; Economic & Planning Systems

The Great Recession and Recovery

During the Great Recession (2008-2010) there was a reduction in employment in nearly every sector. The most significant losses occurred in Construction, which saw a decrease of nearly 50 percent during that time period, and in Goods-Producing Industries, such as manufacturing, natural resources, and mining (**Figure 3**). Employment in Retail, Accommodation, and Recreation and Service-Providing Industries saw less significant reductions in total employment during the Great Recession.

Between 2013 and 2014, employment in Retail, Accommodation, and Recreation, Goods-Producing Industries, and Service-Providing Industries surpassed pre-recession levels. While the Construction sector has not yet reached pre-recession levels, employment continues to increase at a steady pace and based on current growth rates could surpass pre-recession levels by 2018.

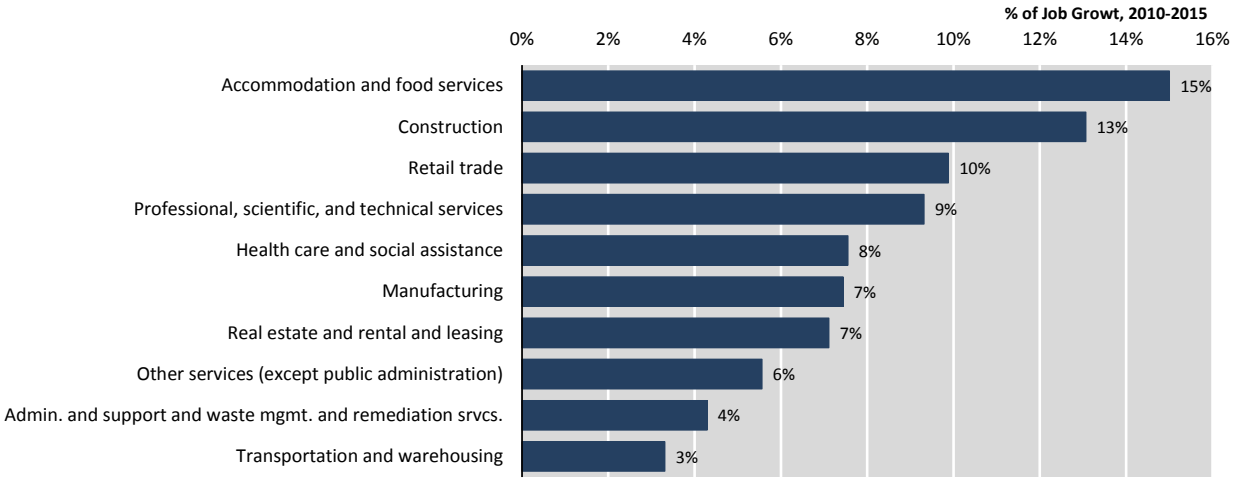
Figure 3
Gallatin County Employment Index, 2008-2016



Source: BLS; Economic & Planning Systems

Between 2010 and 2015, growth in Accommodation and Food Service and Construction represented roughly 15 and 13 percent of growth in total employment, respectively, (**Figure 4**). These sectors combined with Retail Trade and Professional, Scientific, and Technical Services represent nearly 50 percent of the new jobs added following the recession.

Figure 4
Share of Job Growth by Sector, 2010-2016

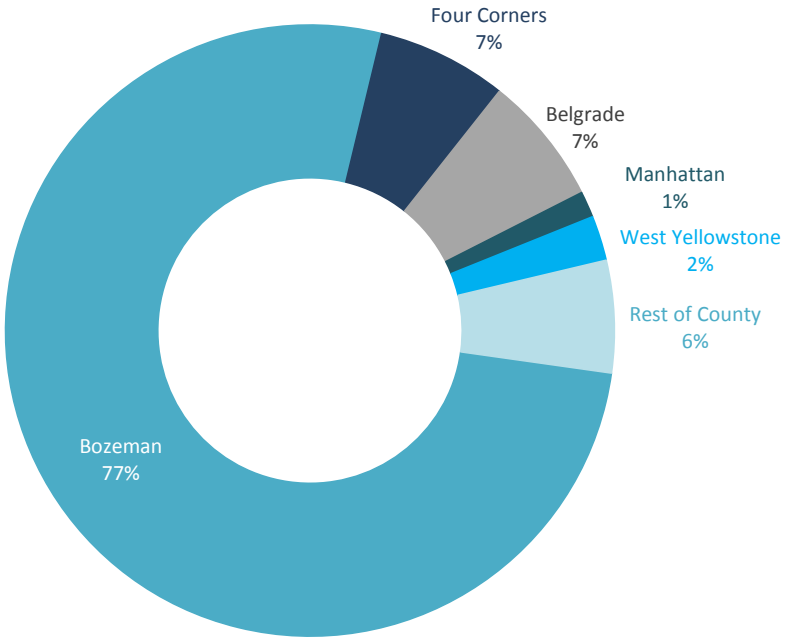


Source: BEA; Economic & Planning Systems

Employment by City

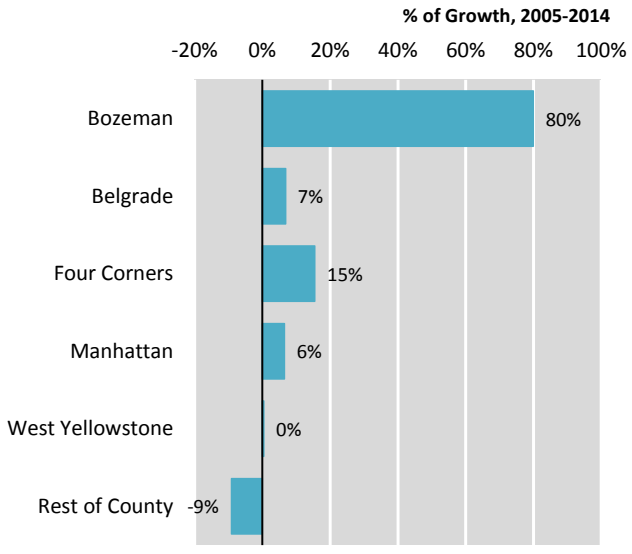
Bozeman continues to be the economic hub of the region with approximately 77 percent of total Gallatin County employment (**Figure 5**). While Gallatin County employment has historically been concentrated in Bozeman, the growth in the technology and outdoor industries in the late 1990s accelerated this trend. The concentration of high-tech employment in Bozeman has also translated to a high number of startups in the city. Since 2005, Bozeman has captured roughly 80 percent of total employment growth in the County (**Figure 6**). This means that for every 10 jobs created in Gallatin County, eight were in Bozeman.

Figure 5
Gallatin County Job Distribution, 2014



Source: U.S. Census Bureau, LEHD Origin-Destination Employment Statistics; Economic & Planning Systems

Figure 6
Share of Job Growth by Area, 2005-2014



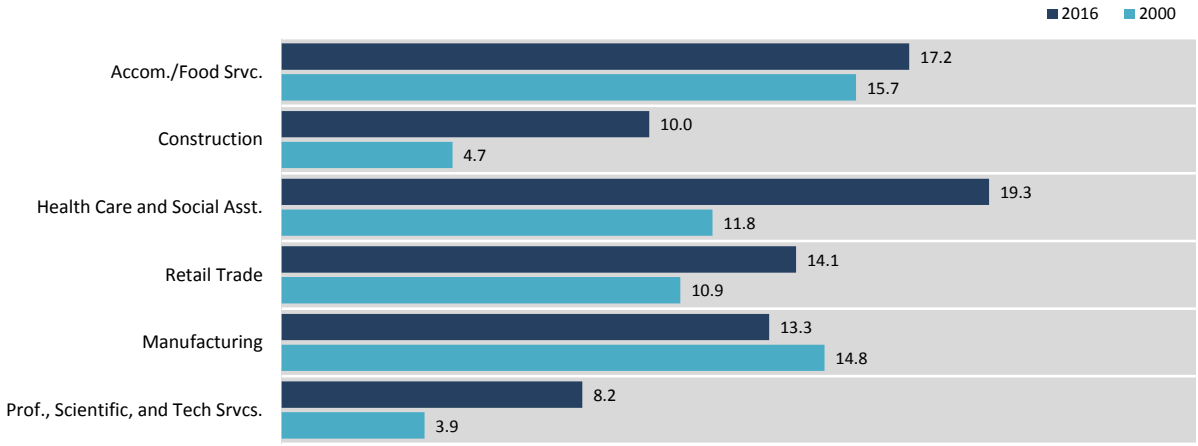
Source: U.S. Census Bureau, LEHD Origin-Destination Employment Statistics; Economic & Planning Systems

Four Corners and Belgrade represent nearly 15 percent of all employment in Gallatin County. While employment growth in Belgrade has been consistent with historical trends, growth in Four Corners has increased significantly. Between 2005 and 2014, roughly 15 percent of total new employment in the County occurred in Four Corners.

Average Firm Size

The average firm size in Gallatin County has decreased from 9.2 employees per firm in 2000 to 8.6 employees per firm in 2016. In sectors with the largest increases in total employment the average firm size is 13.7 employees per firm, which represents an increase of 33 percent when compared to the average firm size in 2000—indicating that many existing businesses have expanded and some new larger employers have located in Bozeman. The largest increases were in Construction, which increased from 4.7 employees per firm in 2000 to 10.0 employees per firm in 2016, and Health Care and Social Assistance, which increased from 11.8 employees to 19.3 employees per firm during the same time period (**Figure 7**). Overall, these firm sizes show that Bozeman's economy is driven by small businesses.

Figure 7
Average Firm Size, 2000 and 2016



Source: Bureau of Labor Statistics; Economic & Planning Systems

Migration

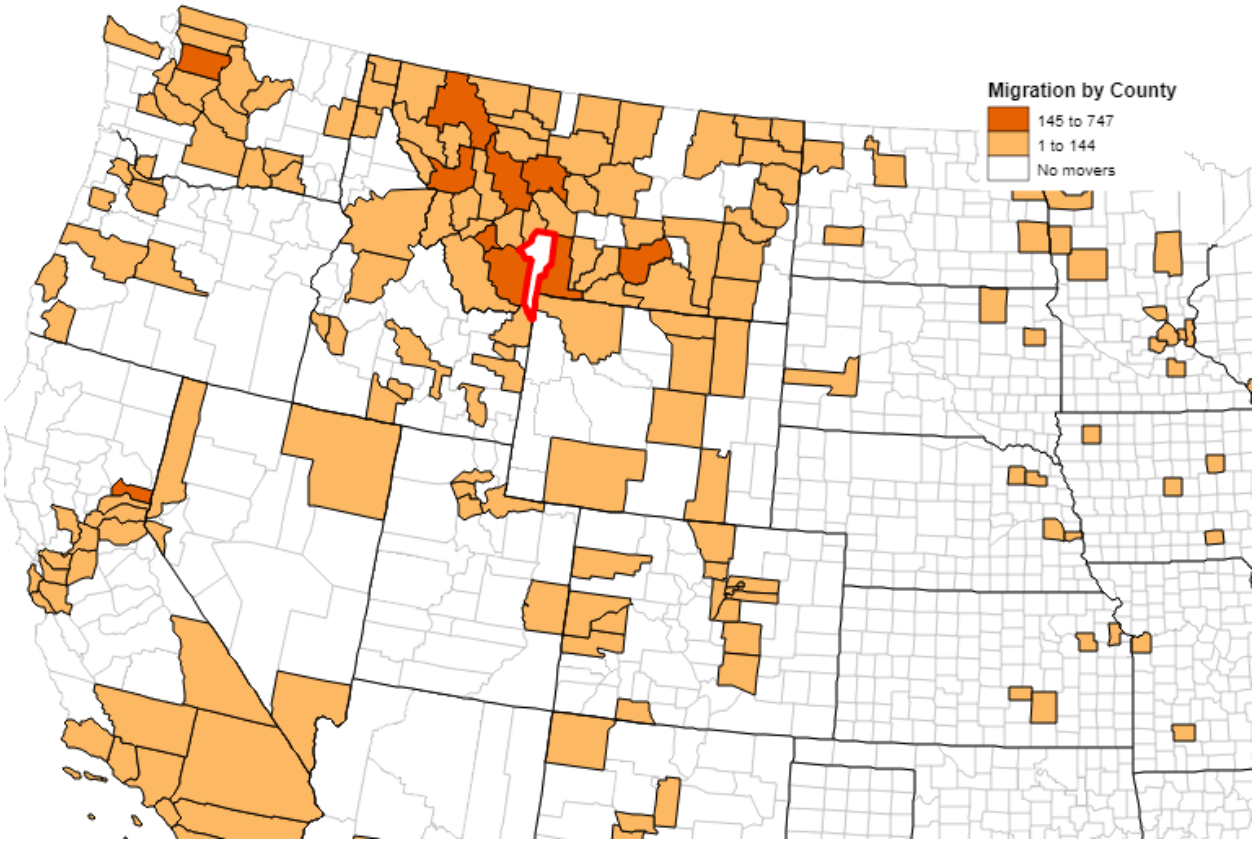
When a large portion of an area's population growth comes from migration, it is a strong indicator that the region has a dynamic economy and is a desirable place to live. Nearly three-quarters of Gallatin County's population growth is from people moving there (**Table 4**). While there were many residents moving from other areas in Montana, such as the greater Missoula area, there were also many residents that moved from the Front Range of Colorado, the Pacific Northwest, and California's Bay Area.

Table 4
Gallatin County Net Migration, 2010-2015

Description	Total	Share of Change
Population Change (2010-2015)		
Births	7,134	49%
Deaths	-3,256	-22%
Net Migration	10,815	74%
Total Population Change	**14,693**	**100%**

Source: U.S. Census Bureau; Economic & Planning Systems

Figure 8
Gallatin County In-Migration, 2011-2015



3. BOZEMAN SOCIOECONOMICS

The previous chapter covered growth and economic trends in Gallatin County and the Gallatin Valley. This chapter provides more specific information on the socioeconomic trends and conditions in the City of Bozeman.

Economic Drivers

The Bozeman economy has five key segments that distinguish it from other midsized cities. This economic mix also creates many opportunities but also some challenges.

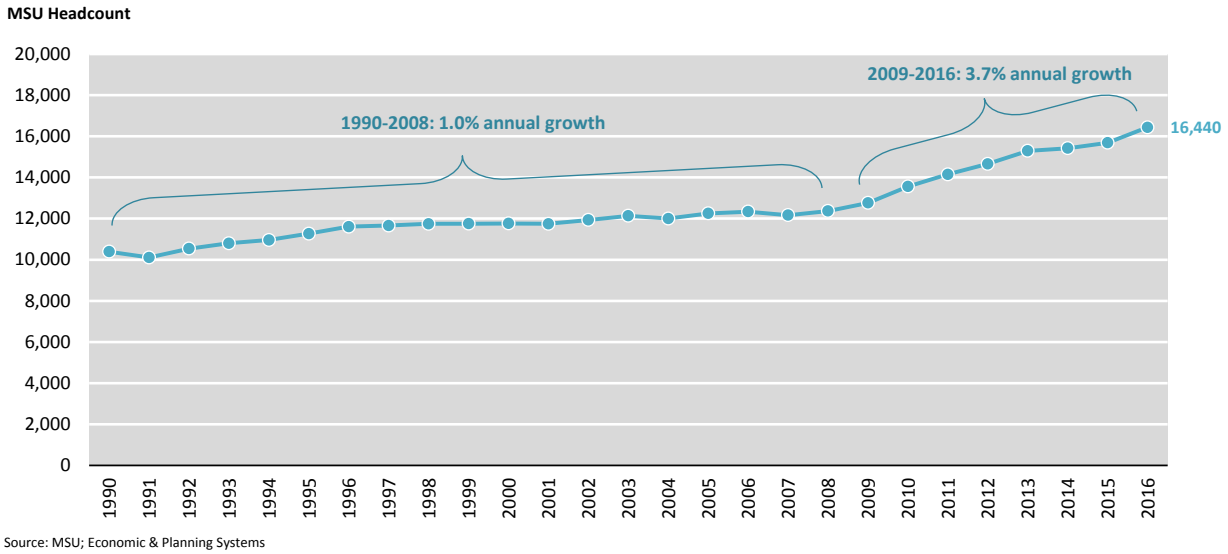
- **Higher Education –** The presence of a major university affects the housing market, but also creates opportunities for research and development partnerships, provides skilled labor, and is a source of stable employment that buffers economic downturns.
- **Tourism and Recreation –** Bozeman is a "gateway community" that is, the gateway—or jumping off point—for world class recreation including the Bridger and Bowl Big Sky ski areas, pristine rivers and streams, and Yellowstone and Glacier National Parks.
- **Health Care –** Bozeman Health is a regional hub for health care in Southwest Montana, employing over 1,000 people. There are numerous other clinics and doctors' offices clustered around the hospital and located throughout Bozeman.
- **Technology** – Rare in small cities, Bozeman is a hub for technology and research and development companies that have both started in or moved into Montana. Major employers range from companies focusing on software development to photonics R&D and manufacturing.
- **Regional Trade Center** – Bozeman serves at least a 150-mile trade area, making it the premier retail, services, and health care hub in Southwest Montana.

This section describes the major economic drivers in Bozeman. This summary is based on the information and analysis included in the *2017 Economic Profile of Gallatin and Park Counties* published by the Prospera Business Network, supplemented by research and analysis by EPS.

Higher Education

Montana State University is one of the primary economic anchors in the City of Bozeman. In 2016, the University had a student headcount of 16,440 (**Figure 9**). Since 2009, the rate of growth in the number of students grew at just under 4 percent per year, which is significantly higher than the historical growth rate since 1990, which was closer to 1.0 per year. While this rate of growth may not be maintained over the long-term, the University will continue to be a major driver in the local economy. The University also employs roughly 3,100 employees and has $514 million in annual operations spending. The vast majority of operations spending is paid to employees and Montana vendors.

Figure 9
MSU Student Enrollment and Total FTE Count, 1990-2016



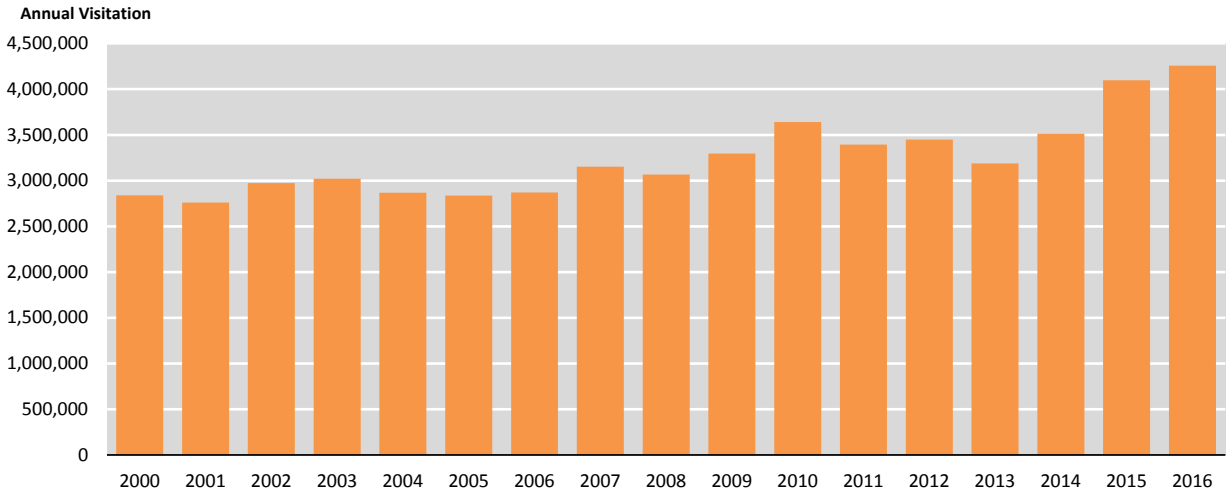
Source: MSU; Economic & Planning Systems

Tourism and Recreation

Tourism and recreation continue to be a major driver in Bozeman and Montana. The Bozeman area benefits from its proximity to some of the State's most beautiful natural amenities, such as hiking trails and rivers and streams that are often used for fishing and rafting, as well as its proximity to Yellowstone National Park and two popular ski areas: Bridger Bowl and Big Sky.

During the summer months, Yellowstone National Park is the top destination for nonresident visitors in Montana, many of whom pass through or spend time in Bozeman. Since 2000, park visitation has increased at approximately 2.6 percent per year or by roughly 89,000 visitors per year (**Figure 10**). Walking around Downtown Bozeman one often hears foreign, mostly European, languages being spoken indicating the global draw of the region.

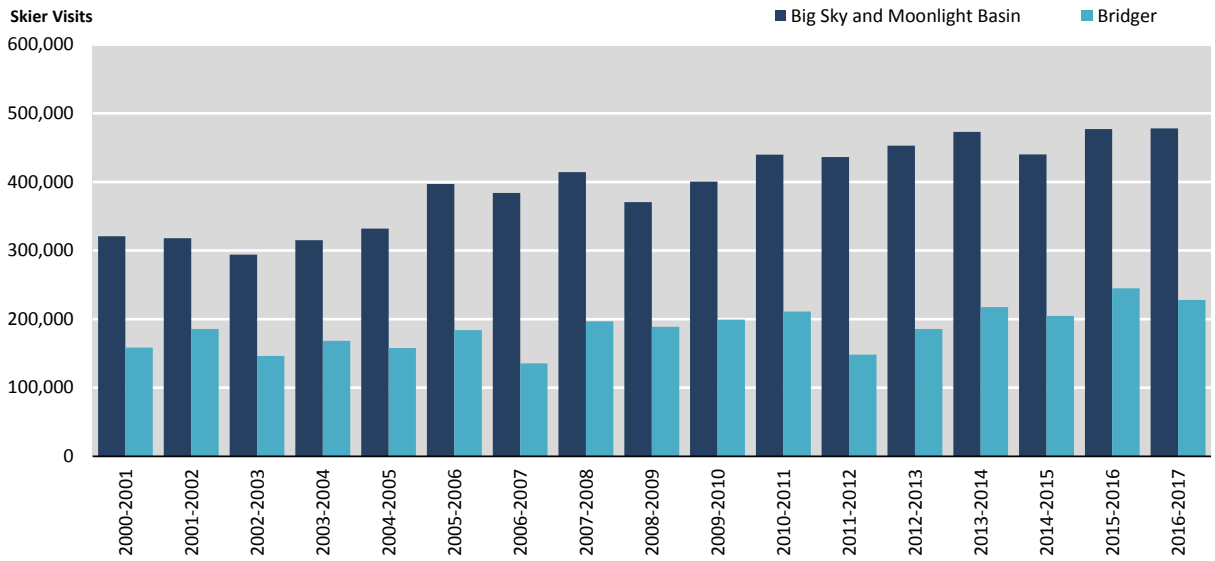
Figure 10
YNP Annual Visitation, 2010-2016



Source: Yellowstone National Park Reports; Economic & Planning Systems

Skier visits to Big Sky and Bridger have also consistently increased since 2000. Between 2000 and 2016, skier visits increased by an average of 2.5 percent per year, which equates to an additional 14,000 visitors per year (**Figure 11**). Nationally, skier growth has been flat over the long-term.

Figure 11
Annual Skier Visits, 2010-2016



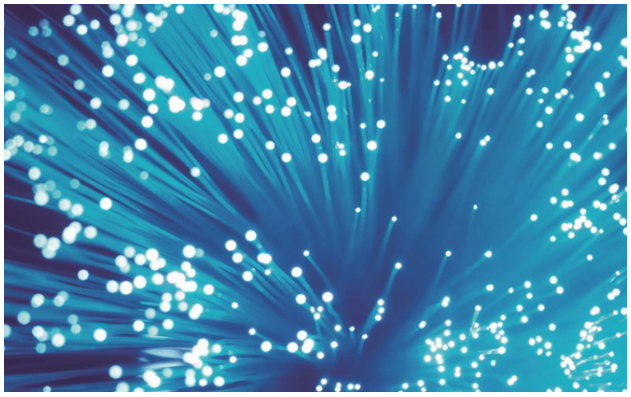
Source: University of Montana; USDA Forest Service, Northern Region and individual ski areas; Economic & Planning Systems

Health Care

The Health Care sector is one of the largest employers in Bozeman and Gallatin County and is a significant contributor to the regional economy. Bozeman Health, which is composed of two hospitals (one in Bozeman), several treatment centers and urgent care centers, and retirement and assisted living facilities, is one of the primary drivers of the regional health care sector. In addition, there are many smaller local technology firms that are part of the health care field and contribute to economic growth in the region.

Technology

Bozeman continues to be a hub for technological companies that are both started in or moved into Montana. The city includes a diverse set of technology companies that range from software and hardware companies to optics and photonics firms. The presence of larger and more established firms, such as Oracle, and the influence of Montana State University creates a business environment that is strongly entrepreneurial.



Regional Trade Center

Bozeman is a regional trade and service center in Southwest Montana. Bozeman's retail, services, and healthcare businesses serve a trade area of approximately 150 miles or more. Serving this large of a trade area has increased the amount of retail that Bozeman can support. The influx of visitors has helped the community diversify the retail and food and beverage mix and strengthen downtown through the additional injection of spending in addition to the local and regional population.

Major Private Sector Employers

The largest private employers in Gallatin County are listed in **Table 5**. Bozeman Health Deaconess Hospital is the largest employer in the County, while Oracle, Town Pump, and Walmart are in the second tier of largest County employers.

Table 5
Largest Private Employers, Gallatin County, 2015

Employer Name	Number of Employees
Bozeman Health Deaconess Hospital	1,000+
Oracle America	250-499
Town Pump	250-499
Wal Mart	250-499
Albertson's	100-249
Bridger Bowl	100-249
Community Food Co-Op	100-249
Costco	100-249
Federal Premium Ammunition	100-249
First Student	100-249
JC Billion	100-249
Kenyon Noble Lumber & Hardware	100-249
Korman Marketing Group	100-249
Martel Construction	100-249
McDonald's	100-249
Murdoch's Ranch & Home Supply	100-249
Ressler Motors	100-249
Rosauer's Super Markets	100-249
Target	100-249
Town & Country Foods	100-249
Zoot Enterprises	100-249

Source: Prosperra Business Network; Bureau of Labor Statistics Quarterly Census of Employment and Wages; Montana Department of Labor & Industry; Economic & Planning Systems

Bozeman Job Growth by Industry

From 2005 through 2014, employment growth in Education and Health Services, and Leisure and Hospitality represented approximately 65 percent of the total job growth that occurred in Bozeman (**Table 6**). Employment in Construction and Information both experienced contraction in total employment. While many service related jobs have surpassed their pre-recession levels there are others, such as Information, that have experienced a slower recovery and have not fully recovered to their pre-recession levels.

There has been some redistribution of jobs in the Gallatin Valley. While Bozeman and Belgrade lost employment in Construction, Manufacturing, and Trade and Transportation related sectors, Four Corners and Manhattan gained employment in these same sectors. This is an indication of a more competitive landscape where firms are moving to areas with lower land and development costs.

Table 6
Share of Job Growth by Sector, 2005-2014

Share of Job Growth	Bozeman	Belgrade	Four Corners	Manhattan
Natural Resources and Mining	1.2%	0.0%	-2.7%	0.2%
Construction	-2.2%	-21.0%	9.8%	8.5%
Manufacturing	1.9%	-15.5%	3.8%	2.5%
Trade, Transportation, and Utilities	0.8%	-5.5%	19.2%	8.3%
Information	-2.7%	-1.5%	3.3%	4.2%
Financial Activities	1.9%	-5.0%	2.5%	12.2%
Professional and Business Services	11.2%	20.1%	17.7%	3.7%
Education and Health Services	30.5%	44.1%	24.1%	29.3%
Retail Trade	7.0%	26.6%	7.6%	9.9%
Leisure and Hospitality	35.0%	43.2%	6.4%	13.2%
Other Services	8.5%	14.8%	8.3%	2.3%
Government	6.8%	-0.4%	0.1%	5.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

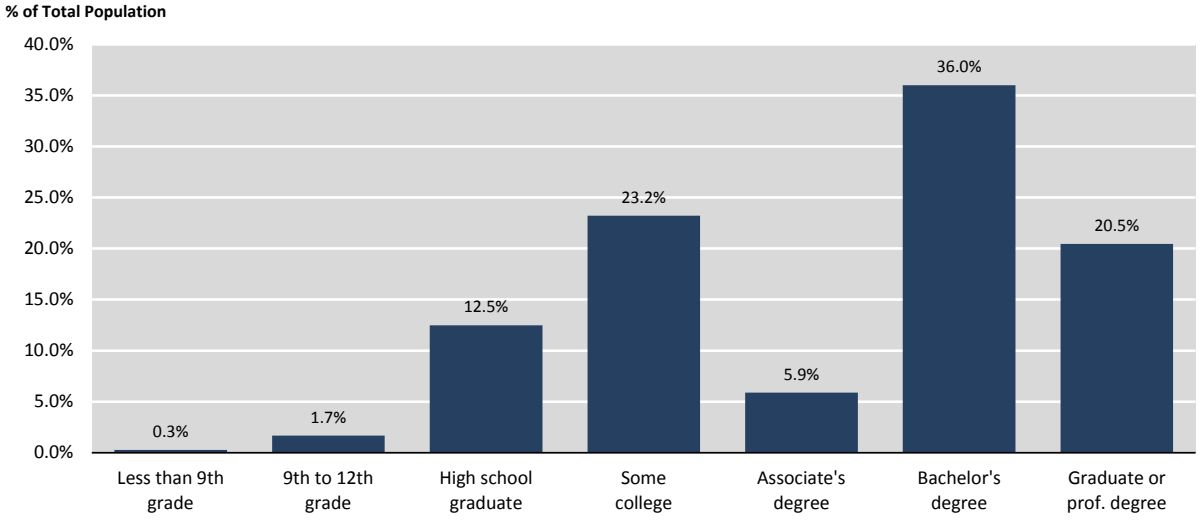
Source: U.S. Census Bureau, LEHD Origin-Destination Employment Statistics; Economic & Planning Systems

Workforce Characteristics

Educational Attainment

Generally, the regional workforce is highly skilled and well educated. Approximately 56.5 percent of the workforce has a bachelor's degree or higher (**Figure 12**). The presence of Montana State University and the high concentration of professional and high skill jobs—such as technology and health care—are drivers of the highly educated local workforce. Places with a high quality of life are also able to attract skilled labor. Highly educated skilled workers have more choices and flexibility in where they choose to work and live.

Figure 12
Bozeman Educational Attainment, 2015

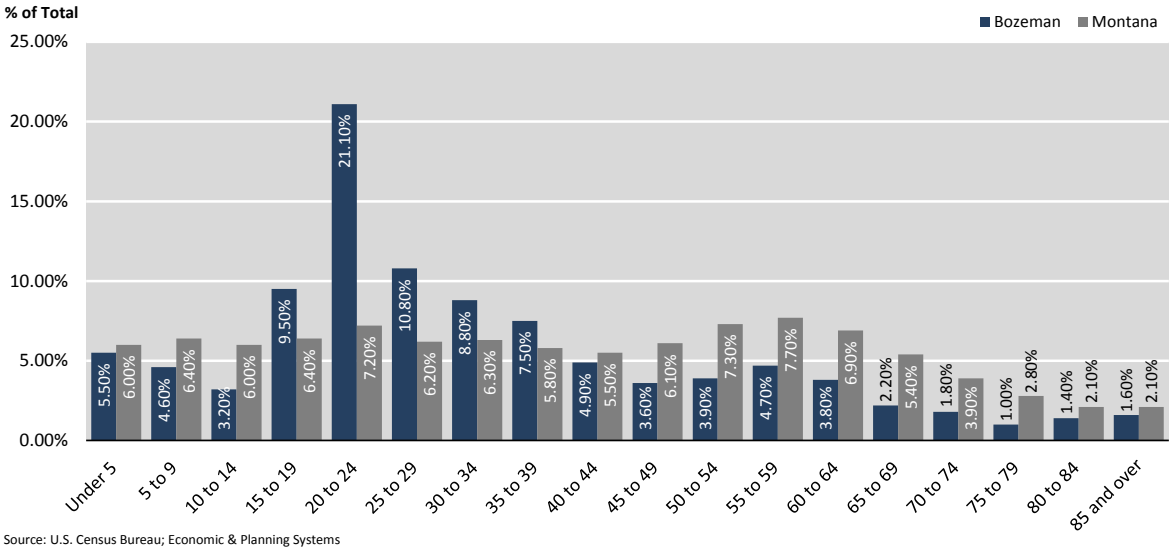


Source: U.S. Census Bureau, Economic & Planning Systems

Age Distribution

The population of Bozeman is younger when compared to the County and State. The median age in Bozeman is 27.6 compared to a median age of 33.2 in Gallatin County and 39.9 in Montana. The primary driver of this is the large number of students attending MSU. The proportion of the total population between the age of 20 and 24 in Bozeman is 21.1 percent compared to 7.2 percent in Montana. Bozeman also has a higher proportion of people between the ages of 25 and 39 compared to Montana, due to the large number of students that remain in the area following graduation and the appeal of the city to those that are in the early stages of their career.

Figure 13
Bozeman Age Distribution, 2015

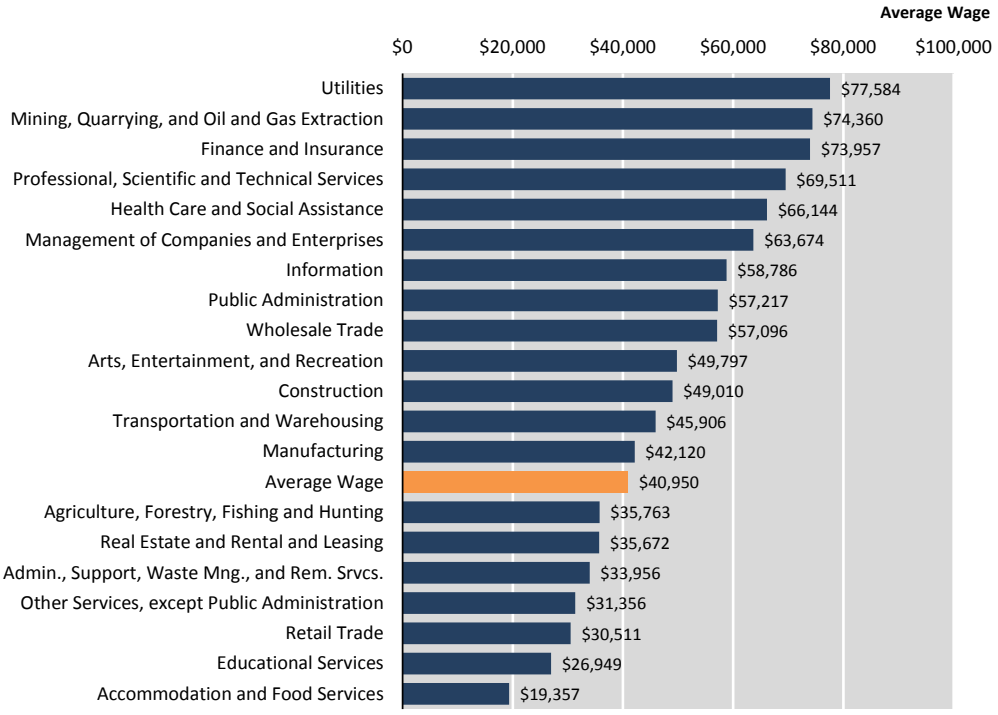


Source: U.S. Census Bureau; Economic & Planning Systems

Average Wages

Average wages for wage and salary employees in Gallatin County was $40,950 in 2016 (**Figure 14**). The highest wages were for jobs in Utilities, Mining and Oil and Gas, Finance and Insurance, and Professional, Scientific, and Technical Services. Annual wages in these sectors ranged from an average of $69,511 to $77,584. The lowest paying jobs were in Accommodation and Food Service, Educational Services, and Retail Trade. Annual wages in these sectors ranged from $19,357 to $30,511.

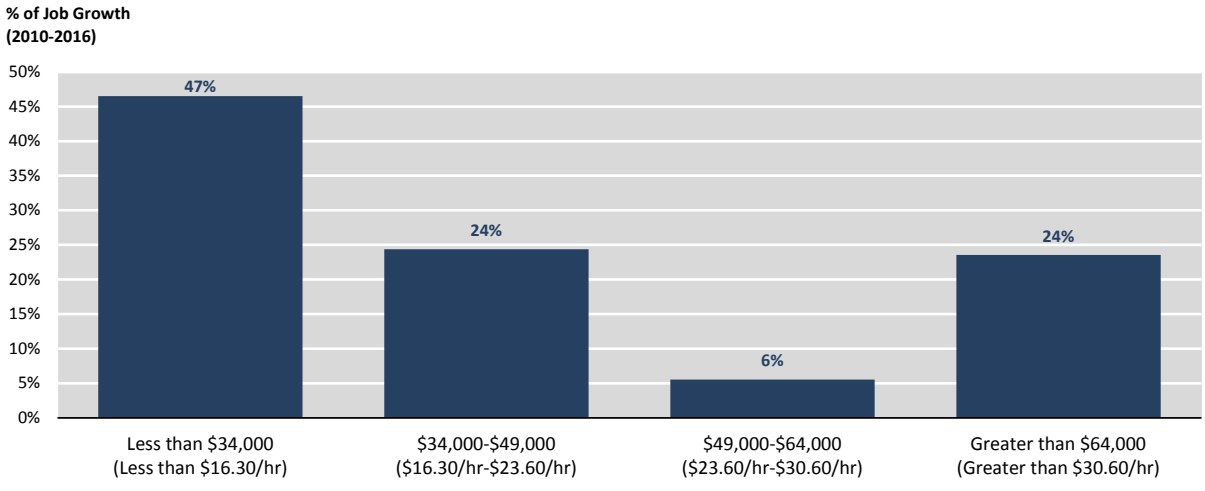
Figure 14
Average Wages, Gallatin County, 2016



Source: BLS; Economic & Planning Systems

The distribution of employment growth between 2010 and 2016 is summarized by wage quartile in **Figure 15**. Middle income jobs or jobs that pay between $49,000 and $64,000 per year represent approximately 26 percent of total employment but only represent 6 percent of total job growth between 2010 and 2016. Nearly half of the jobs created between 2010 and 2016 paid less than $34,000 per year or less than $16.30 per hour. Nearly a quarter of the jobs created during this time period paid over $64,000 per year or greater than $30.60 per hour.

Figure 15
Gallatin County Share of Job Growth by Wage Quartile, 2010-2016



Source: Bureau of Labor Statistics; Economic & Planning Systems

Jobs in the roughly $20 to $30 per hour range are often "middle skill" jobs. These jobs pay a living wage but do not require a four-year degree. The growth of low wage jobs and lack of growth in middle skill and wage jobs is a national trend.

Workforce Shortage

Bozeman has a diverse workforce that is both highly educated and well trained. However, due to the rapid rate of employment growth over the past decade, there is an imbalance between the number of jobs available and available workers. The lack of available employees has negatively impacted the ability of regional employers to find qualified employees. Employers in all sectors ranging from manufacturing to technology have run into challenges associated with finding qualified job candidates. Nationally and locally, a shortage of construction and trades workers is contributing to higher housing costs.

A factor in the workforce supply is the "trailing spouse" challenge typical of smaller cities and more remote regions that don't have the agglomeration economies or larger metropolitan areas. The challenge is that it may be difficult for couples or partners to both find adequate employment due to the size of the overall economy and diversity of firms and job openings. This can be a deterrent for firms and skilled labor.

Community Comparisons

For reference, some comparative statistics from communities that have some similar economic and geographic characteristics to the City of Bozeman are shown below.

Table 7
Peer Community Demographics and Employment

Description	Bozeman, MT	Billings, MT	Missoula, MT	Fort Collins, CO	Boulder, CO	Bend, OR
Demographics						
Population (2016)	45,250	110,323	72,364	164,207	108,090	91,122
Median Age (2015)	27.2	37.6	30.5	29.1	28.8	36.5
% Renters (2015)	44.4%	62.9%	47.9%	53.9%	47.8%	58.2%
Houshold Income						
Owner	$68,282	$65,965	$67,323	$83,228	$95,274	$71,201
Renter	$33,887	$32,223	$26,530	$33,277	$34,036	$36,094
All Households	$45,729	$51,012	$41,421	$55,647	$58,484	$52,989
Employment						
# of Jobs (2014)	37,774	66,886	46,231	74,498	88,963	44,516
Top 3 Sectors						
#1	Educational Services	Health Care and Social Assist.	Health Care and Social Assist.	Health Care and Social Assist.	Educational Services	Health Care and Social Assist.
#2	Retail Trade	Retail Trade	Retail Trade	Educational Services	Prof., Scientific, and Tech Srvcs.	Retail Trade
#3	Health Care and Social Assist.	Accom. and Food Srvcs	Accom. and Food Srvcs	Accom. and Food Srvcs	Manufacturing	Accom. and Food Srvcs
Housing Stock						
1 Unit (detached)	40%	61%	53%	56%	41%	69%
1 Unit (attached)	11%	6%	4%	9%	8%	4%
2 Units	10%	6%	6%	2%	2%	5%
3 or 4 Units	15%	6%	11%	5%	7%	5%
5 to 9 Units	8%	5%	6%	7%	8%	4%
10 to 19 Units	6%	3%	6%	9%	9%	2%
20 to 49 Units	4%	2%	6%	5%	10%	2%
50 or more Units	3%	4%	4%	3%	11%	4%
Other	3%	7%	5%	3%	3%	4%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Higher Education						
Major Colleges/Universities	Montana State University	Montana State University	University of Montana	Colorado State University	University of Colorado	Oregon State University
Enrollment	16,440	4,429	12,419	33,198	32,775	31,303
% of Total Population	36%	4%	17%	20%	30%	34%

Source: U.S. Census; Bureau of Labor Statistics; Economic & Planning Systems

4. HOUSING MARKET TRENDS

This chapter provides an overview of major trends in the national housing market and in Bozeman, organized as follows.

- **National Housing and Demographic Trends** – An overview of the major demographic trends (Boomers and Millennials) and economic trends after the Great Recession that are influencing the housing market.
- **Household Characteristics and Affordability** – An analysis of trends in renters and owners, and housing affordability metrics (cost burden).
- **Housing Price Trends** – A summary of home price trends in the Gallatin Valley.
- **Rental Market** – A synopsis of the rental market in Bozeman, including an assessment of the impact of students on the housing market.
- **Construction Trends** – An analysis of new residential construction data and MT Department of Revenue tax parcel data to document construction trends by product type, land use density, and location.

National Housing and Demographic Trends

The U.S. housing market is changing as broad demographic shifts occur and in part due to the lingering effects of the Great Recession. The Baby Boom and Millennial generations are the two largest demographic segments now and are influencing the housing market, along with other consumer segments of the economy. These two generations at their current ages have higher preferences for walkable, urban locations. After the Great Recession, many households experienced a loss of net worth due to lost income and unemployment, the crash in housing prices, and high household debt levels.

Housing Preferences

At least two national housing surveys indicate a likely shift in demand toward denser single household detached housing types, such as townhomes and row houses in walkable/bikeable or transit-accessible locations, and a shift away from lower density and single use single household home neighborhoods. These preferences contrast with the trends in housing development for much of last half of the 20th Century. The Baby Boom generation shares many of the same preferences for housing as the millennials – modest cost, low maintenance, and close to shopping and services and social activities and networks.[1] These two groups account for about 41 percent of the U.S. population (52 percent in Bozeman, weighted towards student age population). If a small percentage of these people migrate towards different housing types or neighborhood types, it has a large impact on the housing market and on land use policy and it is currently changing markets in U.S. cities large and small.

[1] What Is Livable? Community Preferences of Older Adults. AARP, 2014.

The Urban Land Institute's (ULI) survey of views on housing, transportation, and community, "America in 2013," found that demand will continue to rise for closer in, well located residential development that is less car-dependent.

Sixty-one percent of respondents to the ULI survey prefer a smaller home with a shorter commute over a larger home with a longer commute;

- 53 percent want to live close to shopping;
- 52 percent prefer to live in mixed-income housing; and
- 51 percent prefer access to public transportation.

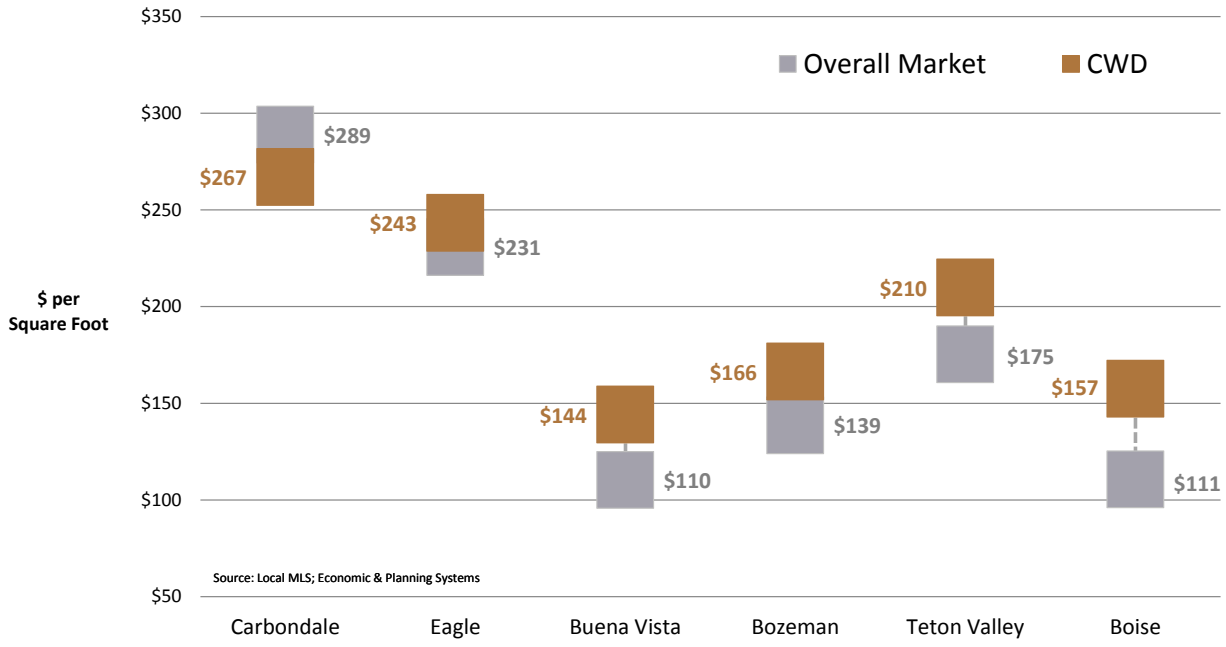
A second national survey by ULI, "America in 2015," found that just over half of all Americans, and 63 percent of Millennials, would like to live in a place where they do not need to use a car very often. Another notable survey by the National Association of Realtors (2011) following the Great Recession had similar findings.

- Cost Matters: 59 percent of buyers will make trade-offs to stay within their budget, highlighting a focus on housing affordability.
- Sense of Place: A majority prefer neighborhoods with a mix of houses, shops, and businesses. Only 12 percent prefer traditional subdivisions with houses only.
- Walkability: 56 percent prefer walkable neighborhoods over conventional suburban neighborhoods where a car is required for most trips.
- Convenience: 59 percent would downsize their home for a commute time under 20 minutes.

In 2011, EPS and the Sonoran Institute completed a study *Reset: Assessing Future Housing Markets in the Rocky Mountain West*. A major finding was that buyers would pay more per square foot to live in neighborhoods built in a style defined as compact walkable development (CWD), 18 percent more on average before the recession. These areas also held their value better than conventional neighborhoods during the recession, with prices per square foot 12.5 percent higher on average (**Figure 16**). CWD includes existing neighborhoods such as the areas north and south of Main Street in Bozeman as well as new development built in a Traditional Neighborhood Design (TND) style such as Valley West on the west side of Bozeman.

The premise of TND is many people do not utilize their whole yard or wish to maintain a large yard. In a TND project, lot sizes are smaller, but there are parks and common open spaces located throughout the neighborhood. This is a variation on a previous trend of golf course communities. Many owners in these communities did not necessarily buy in that community for golf, but for the experience of living next to a large open space. TNDs also focus heavily on walkability and bicycle access through sidewalks, paths, and street design. Essentially, TND neighborhoods are modelled after pre-war neighborhoods such as the original Bozeman neighborhoods north and south of Main Street.

Figure 16
Price per square foot for compact walkable development, 2011



Household Income and Assets

During the Great Recession, seven years ago now, household net worth declined by over 40 percent due mainly to the crash in home prices, but also due to declines in other asset values (e.g. stocks), and a high level of household indebtedness.[2] In aggregate, household net worth has recovered although other trends run counter to this aspect of the recovery.

The share of American adults living in middle-income households has fallen from 61 percent in 1971 to 50 percent in 2015 according to the Pew Research Center.[3] Pew defines "middle-income" households as those with an income that is 67 percent to 200 percent (two-thirds to double) the overall median household income after incomes have been adjusted for household size. Upper income households received 49 percent of U.S. aggregate household income went to upper-income households in 2014, up from 29 percent in 1970. Middle-income households accounted for 43 percent of total household income in 2014, down substantially from 62 percent in 1970. The implications are that more households have less savings or assets available to make a down payment on a home and lower income to be able to afford rent or mortgage payments. There has been a recent resurgence in low-down payment mortgages in response.

In some parts of the U.S., the housing market became more focused on the move-up and luxury market segments as the pool of first time buyers and middle-income buyers shrank. These trends have contributed to the affordability challenges in cities nationwide.

Other notable statistics and considerations related to the Millennial generation are noted below.

- **Diverse** – Millennials are more racially and ethnically diverse than the U.S. population.
- **Wealth and Income** – Millennials, like Boomers, are also diverse in wealth and income. Many graduated college during the Great Recession and had to take lower paying jobs than they would have preferred, and many have large amounts of student loan debt. The National Association of Realtors found that for the last four years buyers 36 years and younger (Millennials/Gen Y) were the largest share of home buyers at 34 percent. Forty-six percent of buyers 36 years and younger reported having student loan debt with a median loan balance of $25,000.
- **Highly mobile** – Many Millennials, especially the well-educated, will look for a place to live and then look for a job, and many work remotely. They are attracted to places with a high quality of life, both in cities and mountain towns based on interviews conducted by EPS in other Intermountain West cities and mountain areas.
- **The Oldest Millennials are 36** – As Millennials age their housing preferences are likely to change as their incomes rise and they start families. They may still prefer walkable neighborhoods and access to mixed use areas, but may look for larger homes. Recent reports from the National Association of Realtors note that Millennials are now the largest group of homebuyers.

---

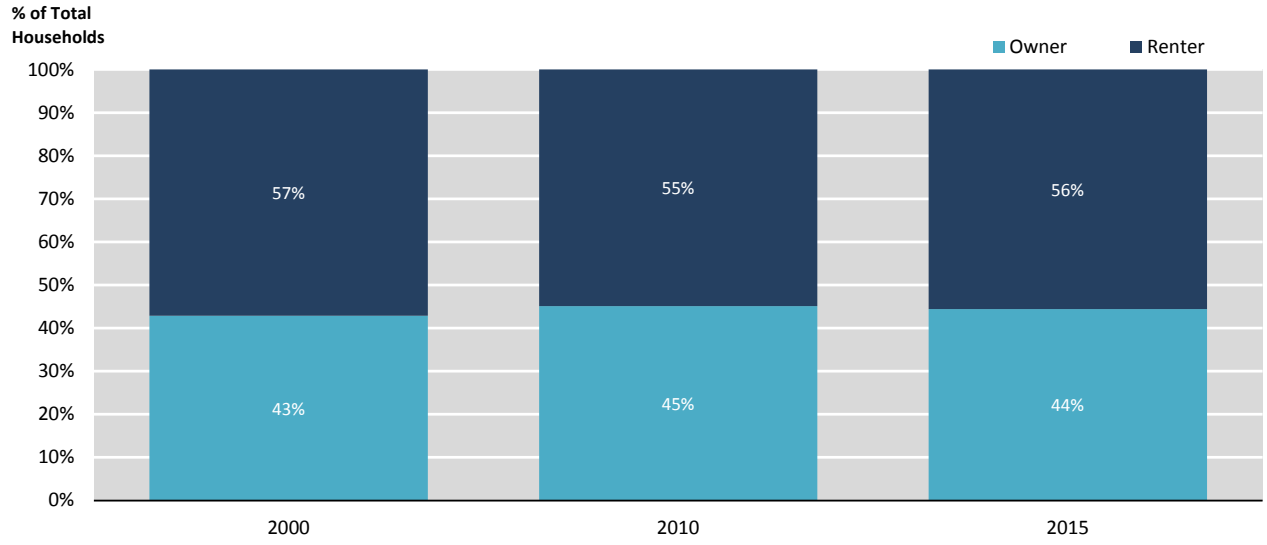
2 Household Wealth Trends in the United States, 1962-2013: What Happened over the Great Recession? Edward N. Wolff NBER Working Paper No. 20733.

3 http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/

Household Characteristics and Affordability

In Bozeman, the most recent American Community Survey figures estimate that 56 percent of households are renters and 44 percent are owners (**Figure 17**). The 16,440 MSU students are a major influence on this figure. The distribution of renters and owners has not changed significantly over the 16 years shown here.

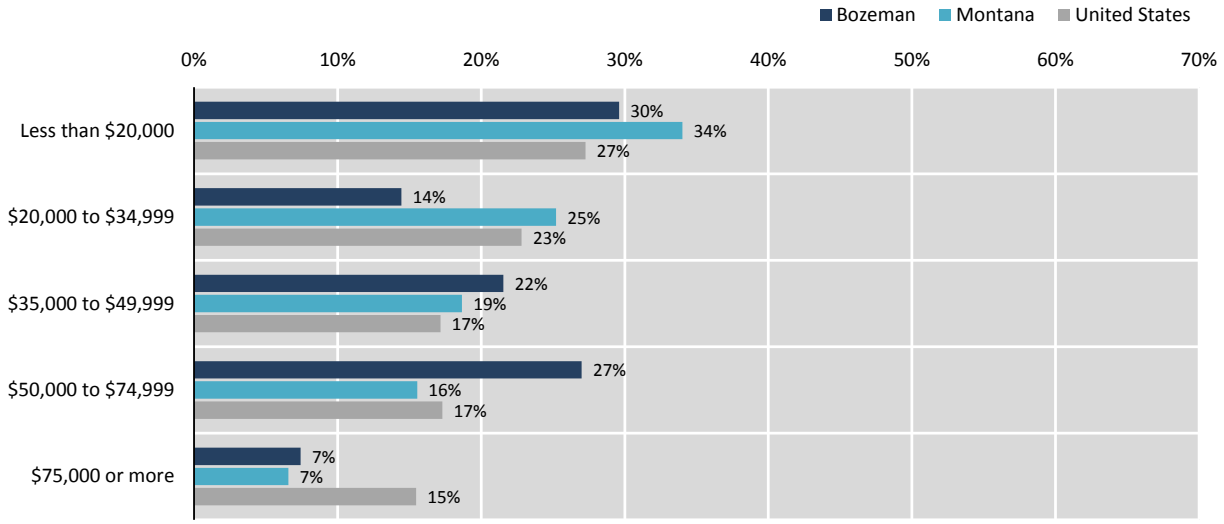
Figure 17
Bozeman Housing Tenure, 2000, 2010, 2016



Source: U.S. Census Bureau; Economic & Planning Systems

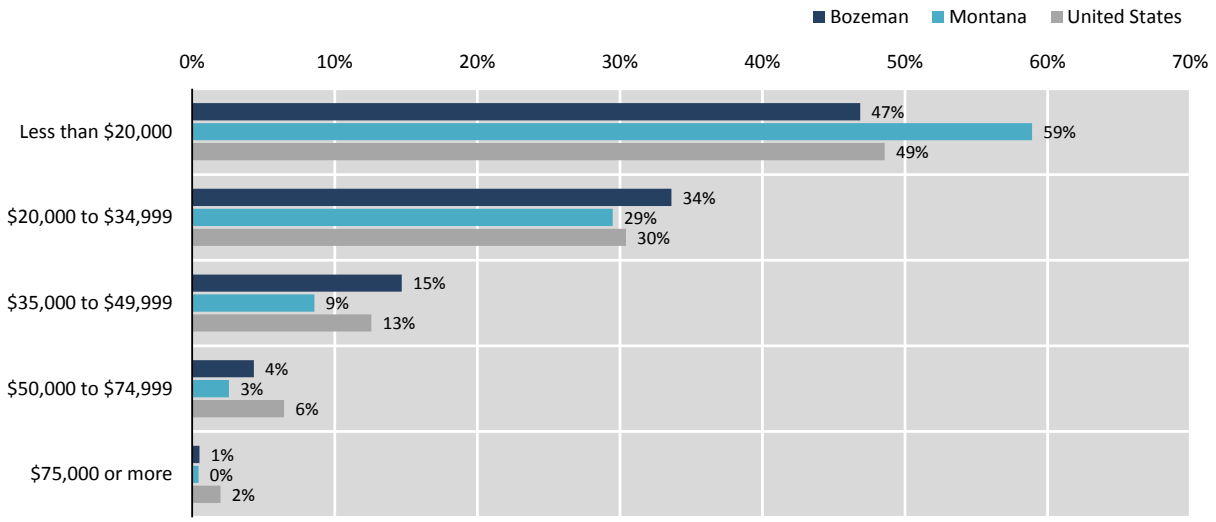
The U.S. Department of Housing and Urban Development (HUD) defines a household as being "cost burdened" when it is paying 30 percent or more of its income to rent or mortgage payments. In Bozeman, 22 percent of owner households are paying more than 35 percent of their income in rent and 9 percent are paying between 30 and 35 percent (**Figure 18**). For renters, 44 percent are paying more than 35 percent of their income to rent (**Figure 19**). Another 8.0 percent pay between 30 and 35 percent of their income in rent. Unfortunately, the Census does not allow us to differentiate between students and the resident employee population. Nevertheless, this is a large proportion of cost burdened households.

Figure 18
Percent of Owner Households Spending Over 30% of Income on Housing, 2015



Source: U.S. Census Bureau; Economic & Planning Systems

Figure 19
Percent of Renter Households Spending Over 30% of Income on Housing, 2015

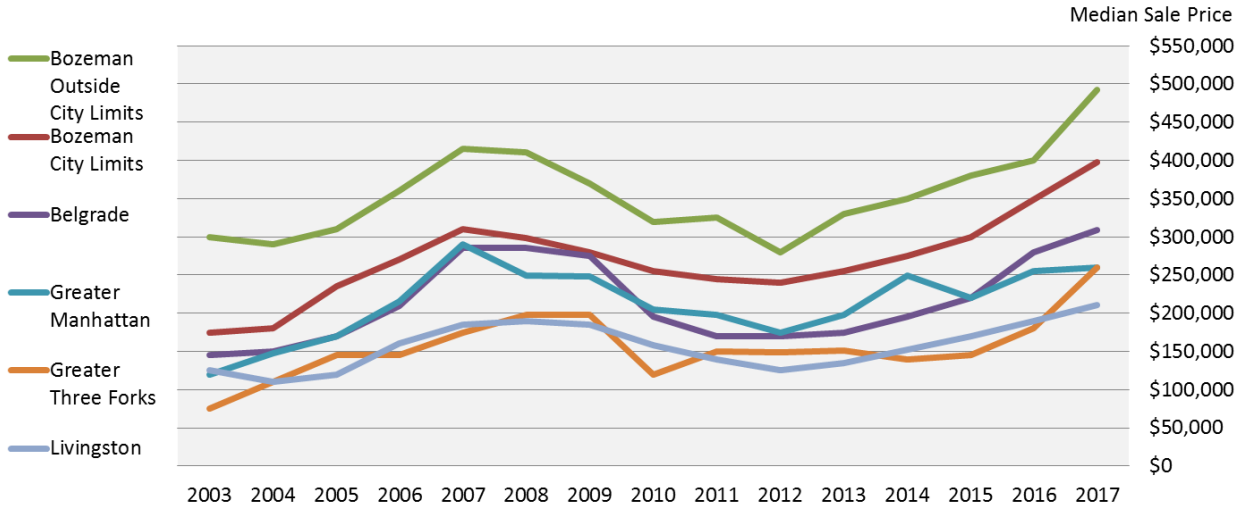


Source: U.S. Census Bureau; Economic & Planning Systems

Housing Price Trends

As of August 2017, the median home price in Bozeman was $398,000 up from $245,000 as the recovery from the Great Recession began (**Figure 20**). The annual appreciation rates over the past five years have been in the 10 to 12 percent per year ranges in and around Bozeman, Belgrade, Livingston, and Three Forks. Home prices are highest just outside Bozeman city limits for homes with large acreage. Home prices in Downtown Bozeman begin at approximately $500,000 to $600,000 for a home that has not been updated and needs major maintenance and upkeep. New construction, often redevelopment, in the Downtown area can be priced over $1.0 million.

Figure 20
Median Sale Price by Area, 2003-2017



ɔurce: Economic & Planning Systems

To afford the median priced home in Bozeman at the 30 percent of income affordability standard, a household needs to earn at least $68,400 per year or $32.00 per hour for one earner (**Table 8**). The median household income for owner households is currently about $68,000 indicating that overall home prices are still in line with incomes at this broad statistical level. These figures however do not account for the quality of the housing available at this price. In addition, it is the rapid increase in home values that people are experiencing especially since wages in incomes have not kept pace with housing cost increases. While homes are more affordable in the surrounding communities, there are additional transportation costs for people who work in Bozeman but commute from surrounding areas.

Table 8
Income Required to Afford the Median Priced Home

	Factors	Bozeman	Belgrade	Bozeman Outside City Limits	Manhattan
Median Single Family Home		$398,000	$308,000	$492,000	$260,000
Down Payment	10%	-$39,800	-$30,800	-$49,200	-$26,000
Mortgage Amount		**$358,200**	**$277,200**	**$442,800**	**$234,000**
Monthly Payment - 30-Yr. Fixed	4.0%	$1,710	$1,323	$2,114	$1,117
Annual Payment	12	$20,521	$15,881	$25,368	$13,406
Required Household Income	30% of income	$68,404	$52,936	$84,560	$44,686
Median Owner Household Income		$68,282	$65,417	$84,881	$59,453
Required Income as % of Median Household Income		100%	81%	100%	75%

Source: Gallatin Assocation of Realtors; US Census; Economic & Planning Systems

\\EPSDC02\Proj\173007-Bozeman Land Use Forecasts\Data\[173007-Affordability Calcs.xlsx]Afford

Rental Market

Rental market information comes from the *2014 Bozeman Rental Housing Survey*, EPS research of rental listings, and interviews with local realtors. There are no published statistics on the Bozeman apartment market.

- **Vacancy Rates** – As noted in the 2014 Housing Survey, the rental market is very tight with vacancy at less than 5.0 percent which accounts only for unit turnovers between tenants. Approximately 600 multifamily units were built since this survey which has helped to ease the supply constraints somewhat.
- **Planned Development -** There is new development under construction and under review that will help expand the rental housing supply. The Icon Apartments are in zoning review (Ferguson Farm, 348 units), as are Sundance II (188 units) and the Bozeman West Apartments (216 units). There are also 268 units of student housing (887 beds) under construction now. In 2016, MSU opened a new approximately 400 bed dorm and recently announced plans for another 400-bed dorm.
- **MSU Enrollment** – Enrollment at MSU increased by 2,900 students from 2010 through 2016 (21 percent), and MSU is expected to continue to grow over the next 5 to 10 years. Student growth combined with the strong job growth in the region has created even more demand for rental housing. MSU students live in nearly all neighborhoods in Bozeman.
- **Rental Rates** – Two-bedroom rental rates average approximately $1,200 per month. The student market drives a large portion of rental rates. Student housing is typically priced at $500 to $600 or more per bedroom per month. This equates to over $1,000 per month for two-bedroom unit, and $1,500 or more per month for a single household home rental.

Impact of Students on Rental Rates

As shown in the example below, three students paying $550 per month equate to a monthly housing payment of $1,650. This is roughly equivalent to the mortgage payment on a $345,000 home, 5 percent less than the median priced home of $360,000 (**Table 9**).

Table 9
Student vs. Local Housing Payment Example

	3 Students	One Full Time Resident Household
Student 1	$550	
Student 2	$550	
Student 3	$550	
Total Rent	$1,650	$1,650
Annual Housing Cost	$19,800	$19,800
Percent of Median Household Income	---	43%
Median Household Income	---	$45,729
Rent in Equivalent Home Value [1]		$345,611

[1] 10% down payment; 30 year fixed rate mortgage; 4.0% interest.
Source: Economic & Planning Systems

Construction Trends

In Bozeman, approximately 7,200 housing units were constructed from 2005 through 2016, an average pace of 600 units per year (**Table 10**). The two most common types of housing built were single household detached homes (2,681 units) and multifamily buildings (mostly apartments) with five or more units. While classified as "5+plexes", these are typically apartment buildings with 50 or more units per building.

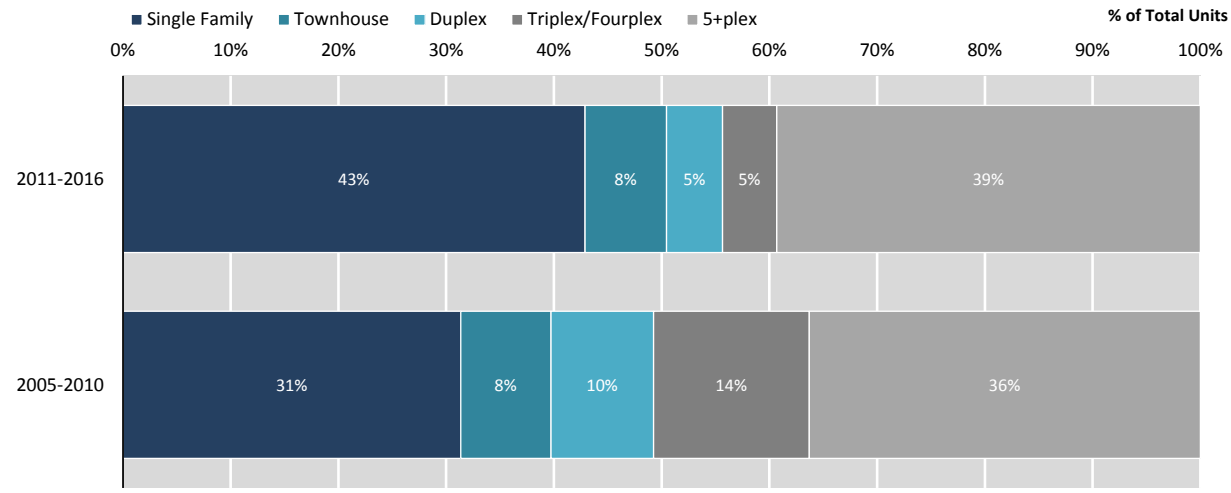
Table 10
Residential Construction Trends, 2005-2016

Description	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2005-2016 Total	2005-2016 Average
Single Family	266	244	214	99	74	143	161	247	388	283	266	296	2,681	223
ADU	3	2	9	8	10	2	10	11	6	13	14	9	97	8
Townhouse	62	62	71	43	19	21	4	38	74	77	24	72	567	47
Duplex	130	62	82	26	8	8	8	28	14	40	35	74	515	43
Triplex/Fourplex	199	123	60	42	38	17	10	9	24	42	44	63	671	56
5+ Units	406	210	332	143	62	51	23	102	308	453	399	219	2,708	226
Total	**1,066**	**703**	**768**	**361**	**211**	**242**	**216**	**435**	**814**	**908**	**782**	**733**	**7,239**	**603**

Source: City of Bozeman; Economic & Planning Systems

As a percentage, single household homes increased from 31 percent of construction during the 2005 to 2010 time period to 43 percent in the 2011 to 2016 time period. "Middle density" units including duplexes, townhomes, and triplex/fourplexes declined from 32 percent of the market to 18 percent of the market. Higher density construction stayed about the same at 36 percent over the 2005 to 2010 time period and 39 percent of the more recent five-year period.

Figure 21
Units Built by Density Type, 2005-2010 and 2011-2016

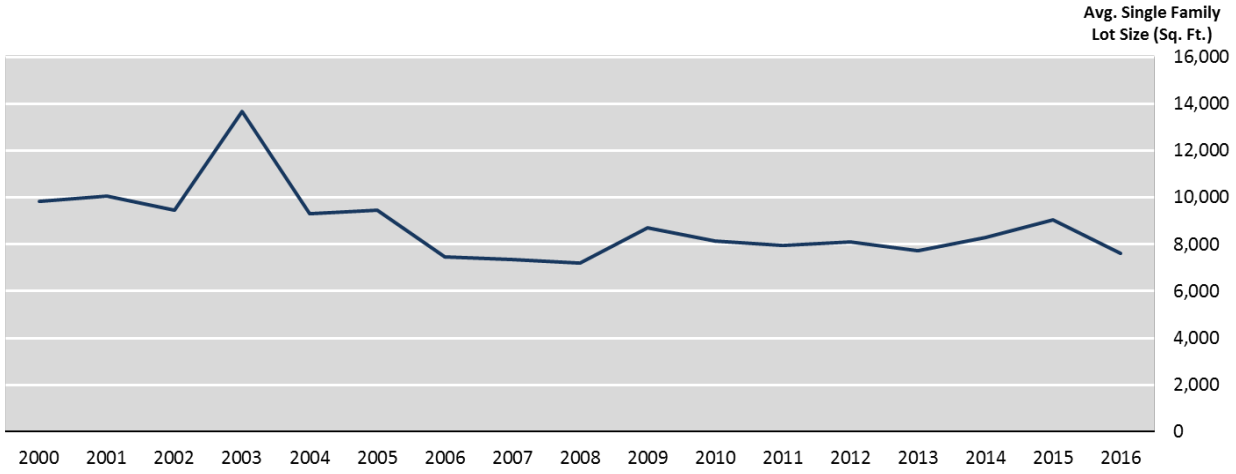


Source: City of Bozeman; Economic & Planning Systems

These middle density unit types provide additional choices for housing types—small and lower maintenance—and can sometimes be built more affordably than larger single household homes. When priced attainably, they also provide another option for first time buyers, or people who want a lower cost home, to build equity. There is therefore a policy interest in seeing more construction of middle density unit types to increase affordability opportunities and to expand housing choices.

The average single household lot size has dropped about 20 percent from the early 2000s through the late 2000s (**Figure 22**). For example, in the Valley West subdivision, built in a Traditional Neighborhood Design (TND) style, approximately 40 percent of the lots are between 5,000 and 7,500 square feet and a quarter are smaller than 5,000 square feet. Laurel Glen, built in the late 2000s has most lots in the 6,500 to 8,500 square foot size range. Most of the lots in the Valley Subdivision (between Babcock and Durston) are between about 9,000 and 10,000 square feet, built in the late 1980s through the 1990s. Lot sizes reflect 'net densities'. When the park/open space and amenity features of TND are included, the overall density may not be significantly higher (i.e. more units per acre) than a conventional subdivision.

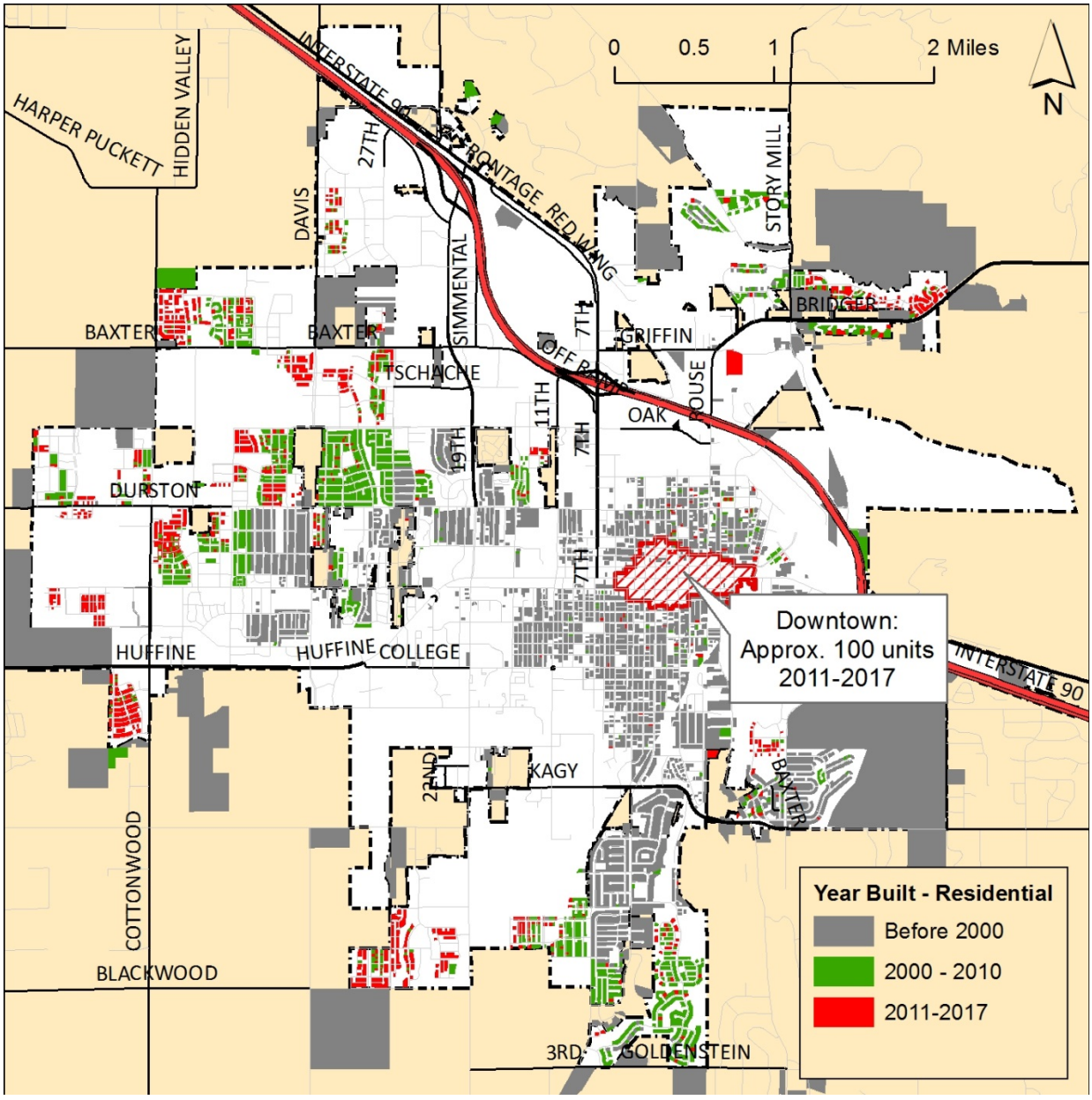
Figure 22
Average Single household Lot Size by Year Built



Source: Economic & Planning Systems
H:\173007-Bozeman Land Use Forecasts\Data\[173007_Parcel_Final_BZN09082017.xlsx]RES_table

Like many cities surrounded by undeveloped and/or agricultural land, Bozeman is growing outward, primarily to the west but also to the south (**Figure 23**). There have also been approximately 100 homes built in Downtown area neighborhoods since 2012. These are comprised of the redevelopment of existing single household homes with new single household homes, and townhome and condominium infill and redevelopment projects. These data do not include ADUs.

Figure 23
Residential Development by Location and Year Built



THIS PAGE INTENTIONALLY LEFT BLANK

5. RETAIL MARKET

This chapter begins with an overview of the changes in the national retail market and its potential impact on Bozeman. Next, it presents an analysis of citywide spending potential compared to the current major retailer inventory, followed by an evaluation of B-1 and B-2 commercial zone areas.

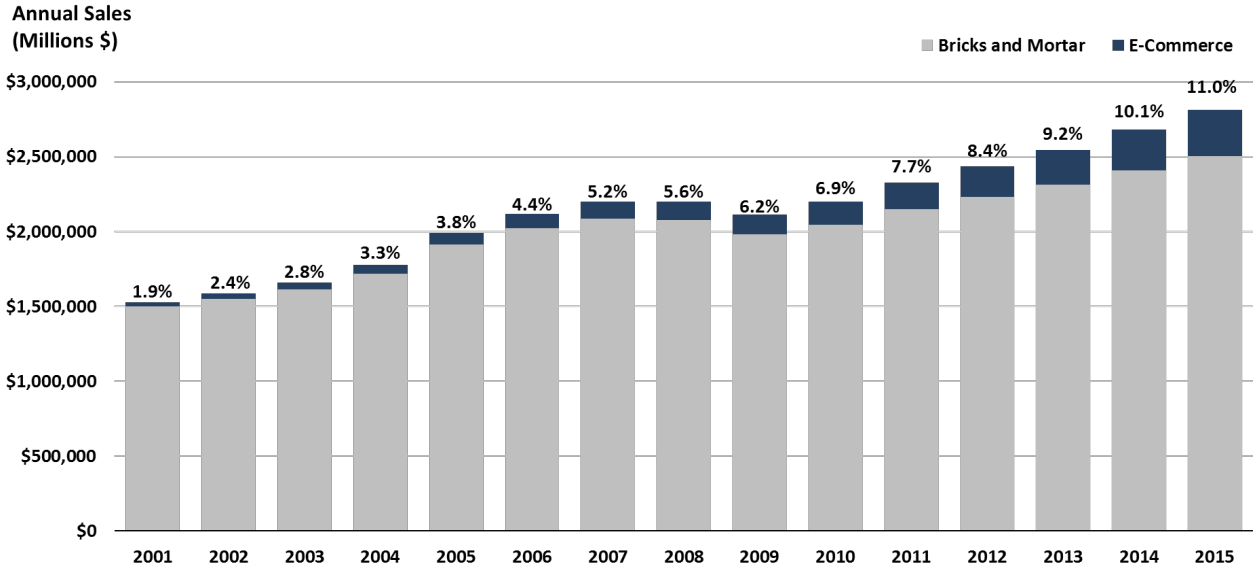
National Retail Market

The retail industry has shifted greatly over the last 10 to 15 years, impacted by the growth of internet sales, declining brick and mortar store sales, retail chain consolidations, and demographic shifts and preferences. Collectively, these trends are impacting store sizes and reducing the overall demand for new retail space locally and nationally.

The Rise of E-Commerce

Between 2001 and 2015, total online retail purchases (excluding auto related) grew from approximately $29 billion to $310 billion, a 21.8 percent annual growth rate. Online sales accounted for 22 percent of total retail sales growth (**Figure 24**). During the same period, brick and mortar stores grew at a 3.7 percent annual growth rate, decreasing their share of the total retail market from 98 percent to 89 percent. Despite still accounting for only 11 percent of overall spending, the growth in online shopping is impacting the demand for traditional brick and mortar stores. This also affects the way retailers are doing business, pushing them to alter store formats and incorporate online sales and marketing into their business concepts. The list of top online retailers reinforces this point as many have a significant brick and mortar presence as well. This group includes such major retailers as Walmart, Target, Home Depot, Best Buy, and Bed Bath & Beyond.

Figure 24
US E-Commerce Sales, 2001-2014



Several national trends impacting the existing inventory of retail stores as well as new development are highlighted below:

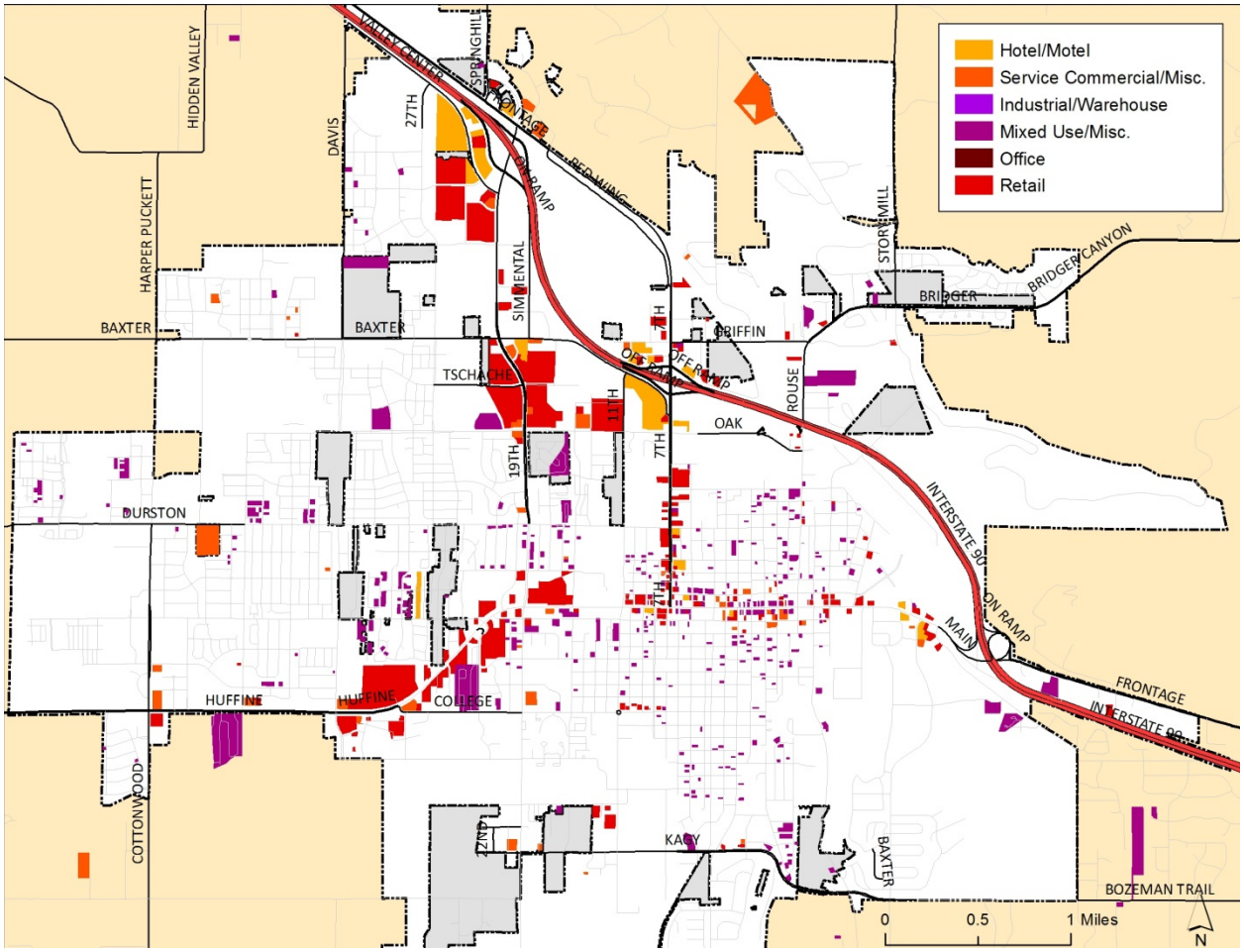
- **Social Media and "Showrooming"**- According to the National Retail Federation, 86 percent of American consumers at least occasionally research items online before buying in a store; of this, 22 percent conduct this research primarily on blogs and 32 percent primarily on Facebook. Electronics is most researched, followed by apparel, appliances, and then shoes. Many consumers will also look at or try on an item in a store and then price shop and purchase it online.
- **Spending Patterns -** Changes in spending patterns are also affecting the amount and mix of retail space. Millennials, who are highly mobile, are less likely to accumulate furniture and home furnishings and other large, high cost items. They are also more interested in experiences, emphasizing travel and entertainment over material goods. Their spending patterns are similar to the boomer generation who has already purchased much of the goods they need and are downsizing their homes and accumulated items. Boomers are also spending more of their income on travel, leisure, entertainment, and dining out.
- **Changing Retail Mix -** These changes in spending patterns are impacting the mix of retail space in aggregate and in downtowns in particular. The restaurant, bar, and microbrewery segment has grown rapidly and new food and beverage formats have been introduced (e.g. food halls and market halls, farm to table restaurants, and food trucks). The growth of shoppers goods store space (general merchandise, apparel, furniture, and other shopper's goods) is flat or declining in contrast as exhibited by numerous closures by Macy's, JCPenney, Sears, and Kmart.
- **Store and Chain Closures -** Over the past five years, there have been nearly 200 retail chain bankruptcies. In 2017, CNN Money reported that there were 5,300 store closing announcements through June 20 compared to 6,200 in 2008 during the Great Recession—the worst year so far for store closings. There are fewer stores in the market now, making it more difficult to find tenants for new retail developments. Vacancies are increasing nationally as large blocks of space are vacated by store brands that no longer exist.

Bozeman Retail Development

Retail development in Bozeman is concentrated along two major arterials that include U.S. Highway 191 (W. Main Street and Huffine Lane) and North 19th Avenue (**Figure 25**). U.S. Highway 191, including Bozeman's historic downtown along Main Street, is a vibrant corridor of retail and restaurant spaces that is frequented by locals and tourists throughout the year. Retail development to the west of downtown Bozeman along Hwy 191 includes smaller strip malls and commercial nodes as well as Bozeman's regional mall, the Gallatin Valley Mall.

Historically, N. 19th Avenue was defined by low density retail uses, such as car washes and auto dealerships. However, with the addition of several big box retailers that include Home Depot, Target, and Costco, the N. 19th Avenue corridor is now a regional node for big box retailers and a destination for those living in and outside of Bozeman. Development along this corridor is anticipated to continue to be defined by large format users that draw demand at the regional level.

Figure 25
Retail and Commercial Development Areas



Retail and Commercial Construction Trends

Since 2000, Bozeman added at least 1.0 million square feet of retail and commercial buildings (**Table 11**). The data shown include mostly retail uses as classified by the State Department of Revenue tax parcel data. It does not include other types of miscellaneous commercial and automotive buildings. Bozeman captured approximately 70 percent of the market for retail construction and over 90 percent of the market for new accommodations construction.

Table 11
Retail/Commercial and Hotel Construction Trends

	2000-2006	2007-2011	2012-2016	Total Sq. Ft.	Ann. Sq. Ft.	Market Share
Belgrade Area						
Hotel/Motel	36,456	0	0	36,456	2,144	5.5%
Retail/Commercial	76,442	71,523	25,258	173,223	10,190	11.8%
Bozeman						
Hotel/Motel	81,729	249,109	287,698	618,536	36,384	93.1%
Retail/Commercial	323,096	475,784	223,684	1,022,564	60,151	69.5%
Four Corners Area						
Hotel/Motel	0	0	9,150	9,150	538	1.4%
Retail/Commercial	138,990	84,784	52,236	276,010	16,236	18.8%
Greater Bozeman Area						
Hotel/Motel	118,185	249,109	296,848	664,142	39,067	100.0%
Retail/Commercial	538,528	632,091	301,178	1,471,797	86,576	100.0%

Source: Gallatin County GIS; City of Bozeman GIS; Economic & Planning Systems' Analysis

Retail Inventory

From a planning level inventory of commercial retailers in Bozeman, there are a wide variety of national grocery chains, big box retailers, and smaller local stores. There are seven full service supermarkets (including the Walmart Supercenter) in Bozeman plus several smaller specialty food stores and independent grocers such as the Community Food Co-op (**Table 12**).

Bozeman also has most of the national anchor retailers that are still active in the market, including Costco, Target, Home Depot, Lowes, Kohls, and Macy's. While a number of these stores are located within the Gallatin Valley Mall, an increasing number have located along the N. 19th Avenue corridor.

Table 12
Bozeman Retail Inventory

Description	Store Type Avg. Sq. Ft.
Supermarkets and Grocery Stores	
Walmart Supercenter	220,000
Town & Country Foods (2 stores)	70,000
Safeway	65,000
Albertsons	65,000
Smith's	50,000
Rosauers	50,000
Huckleberry's Natural Market	20,000
Heebs East Main Grocery	10,000
Community Food Co-op	10,000
Shopper's Goods	
Costco Wholsale	120,000
Target	120,000
Kohls	60,000
Macy's	50,000
Sportsman's Warehouse	50,000
Wholesale Sports	50,000
Dollar Spree	50,000
Dollar Tree	50,000
REI	25,000
T.J. Maxx	20,000
Ross	20,000
Sears	20,000
JCPenney	20,000
Play it Again Sports	20,000
Gap Outlet	10,000
Joann	10,000
White House Black Market	10,000
Other Shopper's Goods	
Gallatin Valley Furniture	35,000
Barnes and Noble	20,000
Office Depot	20,000
Staples	20,000
Petco Animal Supplies	20,000
PetSmart	20,000
Mattress King	10,000
Building Material & Garden	
The Home Depot	150,000
Lowe's Home Improvement	150,000
Kenyon Noble Lumber and Hardware	100,000
Murdoch's Ranch & Home Supply	50,000

Source: Economic & Planning Systems

Retail Demand

This section compares household spending patterns to Bozeman's retail inventory. It shows that Bozeman has a sufficient supply of retail to serve residents as well as a larger regional trade area. Commercial businesses in the city rely on spending from local households, households living in the Gallatin Valley area and travelling to the city for their retail needs, and tourists. While the ratio between local spending and inflow ranges by store type, comparing local spending potential to the existing inventory of stores provides an indication of the amount of inflow supporting commercial development in the city.

A local trade area for Bozeman was defined as an approximately 15 to 20-mile (depending on topography) trade area around the city. Spending from this trade area is estimated to support approximately 1.71 million square feet of retail development (**Table 13**). This is based on an estimated 42,000 households in and around the city, an average household income of nearly $46,000, and retail spending equating to 35 percent of total household income.

Supermarkets and Grocery Stores

Local spending is estimated to generate enough demand for approximately five full service supermarkets at an average size of 55,000 square feet. As noted earlier, Bozeman currently has seven full service supermarkets plus other smaller independent and specialty food stores. This indicates that approximately two-thirds of the total space is supported by spending from the local trade area. The remaining one-third is supported by inflow from more outlying areas and visitors.

General Merchandise

Local spending also generates enough demand for roughly three general merchandise stores (e.g. Walmart, Target, Kohls, and Costco). There are currently four major general merchandise stores in the city, indicating that additional spending flows into Bozeman from the larger Southwest Montana regional trade area.

Building Material and Garden

Local households generate enough demand to support roughly two building material and garden centers. There are now two major home improvement centers (Lowes and Home Depot) plus several other hardware and building supply businesses such as Ace Hardware, Murdoch's, Kenyon Noble, and Empire Building Materials in the city. Like supermarkets and general merchandise stores, slightly more than half of the existing building material and garden space is supported by local spending. The rest of the demand comes from the construction industry and the larger Southwest Montana regional trade area.

Market Potentials

Bozeman is more than adequately supplied with regional and community level retail development. Any additional development will need to result from two sources. First is the continued growth of Bozeman and the Gallatin Valley. Additional household and business growth generates demand for retail space, and substantial growth may be needed to support more retail—especially community shopping center formats anchored by a supermarket. Second, while unpredictable, new brands or store formats do emerge and look for new markets to enter and compete with the existing store offerings. Bozeman is likely a good 'test market' in Montana for new retail concepts.

Table 13
Bozeman Supportable Commercial Area: Local Spending

Store Type	Retail Sales % of Total (2012)	Expenditure Potential ($000s)	Avg. Sales Per Sq. Ft.	Local Spending: Capture Rate	Local Spending: Supportable Square Feet	Average Store Size	Est. Stores Supported	Existing Stores
Spending Potential								
Housholds (Greater Bozeman Area) [1]		41,621						
Average Household Income		$45,729						
Total Personal Income (TPI) ($000's)	**100%**	**$1,903,287**						
Convenience Goods								
Supermarkets and Other Grocery Stores	6.9%	$131,692	$450	100%	293,000	55,000	5.3	6+
Convenience Stores (incl. Gas Stations)	2.0%	$37,671	$300	100%	126,000	5,000	25.2	N/A
Beer, Wine, & Liquor Stores	1.1%	$20,493	$300	100%	68,000	5,000	13.6	N/A
Health and Personal Care	1.7%	$31,701	$400	100%	79,000	20,000	3.9	N/A
Total Convenience Goods	**11.6%**	**$221,558**	**$403**	**100%**	**566,000**			
Shopper's Goods								
General Merchandise	7.2%	$136,827	$455	100%	315,000	100,000	3.1	4
Other Shopper's Goods	6.9%	$132,253	$337	75%	311,250	N/A	N/A	N/A
Total Shopper's Goods	**14.1%**	**$269,080**	**$397**	**93%**	**626,250**			
Eating and Drinking	**6.1%**	**$115,904**	**$350**	**95%**	**314,450**	**N/A**	**N/A**	**N/A**
Building Material & Garden	**3.3%**	**$62,149**	**$300**	**100%**	**207,000**	**100,000**	2.0	3
Total Retail Goods	**35.1%**	**$668,690**	**$382**	**94%**	**1,713,700**			

[1] Roughly includes the 20 mile area around Bozeman

Source: 2012 Census of Retail Trade; Economic & Planning Systems

Commercial Zoning Evaluation

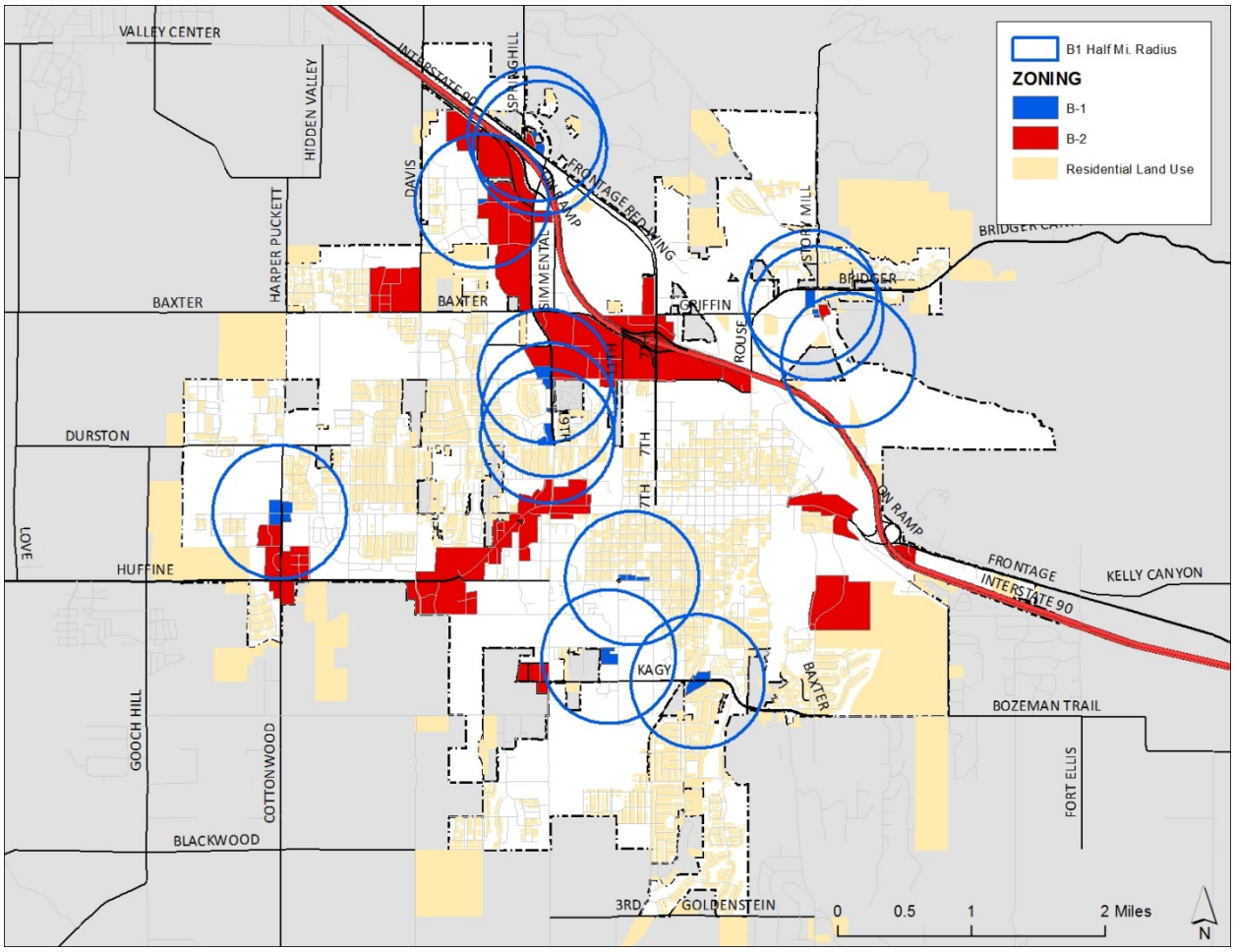
This section evaluates some of the issues with supporting and growing retail and commercial services and businesses closer to housing and well-located community serving commercial and retail areas. The Community Plan promotes neighborhood oriented commercial space located close to and integrated with residential neighborhoods, accessible by walking, bicycling, or a short car trip. To allow and support community and neighborhood commercial development, the City created two zoning districts, B-1 and B-2.

- **B-1 Neighborhood Business Districts** – "The intent of the B-1 neighborhood business district is to provide for smaller scale retail and service activities frequently required by neighborhood residents on a day to day basis, as well as residential development as a secondary purpose, while still maintaining compatibility with adjacent residential land uses. Development scale and pedestrian orientation are important elements of this district."
- **B-2 Community Business Districts** – "The intent of the B-2 community business district is to provide for a broad range of mutually supportive retail and service functions located in clustered areas bordered on one or more sides by limited access arterial streets. The intent of the B-2M community business district—mixed is to function as a vibrant mixed-use district that accommodates substantial growth and enhances the character of the city. This district provides for a range of commercial uses that serve both the immediate area and the broader trade area and encourages the integration of multifamily residential uses as a secondary use."

The locations of the B-1 and B-2 areas are shown in **Figure 26**. It is notable that the half mile trade areas around many B-1 zones overlap meaning that B-1 districts are located too close to each other and therefore are competing with each other. There are some B-1 zoning areas that may have antiquated zoning that assumed a past development plan that is no longer viable. Others have poor access and no utilities. Going forward, these types of areas should be considered for rezoning.

The issue is that many B-1 and B-2 areas have been slow to develop, which has resulted in a few concerns. First, residents have supported the idea of having these services and businesses close by; the goals of the Community Plan are therefore not being realized. Second, land owners have requested rezonings and other variances to allow them to develop their properties sooner.

Figure 26
B-1 and B-2 Commercial Districts



B-1 and B-2 Development Prototypes

To address concerns about how much B-1 and B-2 land is needed, the size of the B-1 neighborhood centers, and development timing, we have developed prototypical development scenarios.

For the purposes of this analysis, a prototypical B-1 district is assumed to be 10 acres. The current average size of a B-2 district (not including the Huffine/Main Corridor) is 75 acres (**Table 14**).

- To account for the undevelopable area of each district that will be dedicated to set-backs, rights-of-ways, streets and sidewalks, an efficiency factor of 75 percent is applied to the gross acreage to calculate the net developable area.
- To calculate the building area that can be developed on the net developable acreage a floor area ratio (FAR) of 0.30 is applied in B-1 districts and a slightly lower density of 0.25 is applied in B-2 districts.
- Finally, this analysis accounts for a typical business mix. In B-1 districts, 60 percent of the building area is assumed to be developed as office or non-retail uses, 20 percent is assumed to be developed as restaurant and/or bars, and 20 percent is assumed to be developed as retail space. In B-2 districts, 25 percent of the area is assumed to be developed as non-retail uses, 25 percent as restaurant and/or bar space, and 50 percent as retail.

Based on these assumptions, a 10-acre B-1 district can accommodate nearly 40,000 square feet of retail, food and beverage, and office/service development. A larger B-2 district can accommodate approximately 460,000 square feet of retail, food, and beverage development.

Table 14
B-1 and B-2 Development Capacity

Description	B-1 District	B-2 District
Prototype Land Area (Acres)	10.00	75.00
Developable Area (% of Total)	75%	75%
Developable Area (Acres)	7.50	56.25
Developable Land Area (Sq. Ft.)	326,700	2,450,250
Development Density (FAR)	0.30	0.25
Development Potential (Sq. Ft.)	98,010	612,563
Office/Service/Non-Retail (% of Total)	60%	25%
Restaurant and Bar (% of Total)	20%	25%
Retail (% of Total)	20%	50%
Retail & Food & Beverage Development Capacity (Sq. Ft.)	**39,204**	**459,422**

Source: Economic & Planning Systems

Retail demand in B-1 zones is evaluated in the context of the amount of space supportable by households living within a 0.5 to 1.0-mile radius. While B-2 districts are anticipated to include some amount of neighborhood oriented commercial space, they were primarily envisioned as locations for community shopping centers. Traditionally, community shopping centers are anchored by grocery stores that help attract other ancillary retail and service businesses. Their trade areas are typically at least two miles at suburban and small city housing densities.

B-1 Neighborhood Business District Analysis

Generally, neighborhood oriented commercial space is frequented by households residing within a radius of 0.5 to 1.0 miles. Throughout Bozeman, the number of households living with this radius of existing B-1 districts varies greatly. In order to provide an estimate of supportable retail, food, and beverage space, this analysis estimates the number of households needed to create the demand to support the amount of space that can be developed in a B-1 area.

A likely tenant mix for a B-1 district is proposed as follows:

- Convenience Goods – A small market or specialty foods store.
- General Merchandise – None. In the current retail market, this store category is dominated by national discount retailers that look for regionally accessible locations (e.g. N. 19th Avenue) and large building footprints not compatible with the intent of B-1 zoning.
- Other Shopper's Goods/Misc. Retail – A modest amount of miscellaneous retail (e.g. children's clothing, florist, arts and crafts, stationary).
- Eating and Drinking – A neighborhood café, coffee shop, restaurant, or bar.

The retail spending factors used in the B-1 prototype are explained below:

- Households spend approximately 35.1 percent of their total household income on retail goods.
- While required average sales per square foot vary by retail categories, we have estimated that average sales of just under $300 per square foot per year on average are needed for a business to be viable.
- Neighborhood resident spending capture rates vary by commercial type, location, and development scale. For the purposes of this analysis, a weighted capture rate of 11.0 percent is estimated for B-1 districts. This capture rate reflects a 15 percent capture of spending on convenience goods, 5 percent on shoppers goods, and a 10 percent capture of spending on eating and drinking.

It is estimated that a B-1 district with 500 residents within 0.5 to 1.0 miles can support approximately 2,000 square feet of retail, food, and beverage space. However, a vibrant neighborhood commercial center needs a larger 'critical mass' of space to be viable, judged to be in the 20,000 to 30,000 square foot range. Therefore, a B-1 district requires approximately 3,500 to 5,500 households within a 0.5 to 1.0-mile radius (**Table 15**).

Table 15
B-1 District Supportable Square Feet by Number of Households

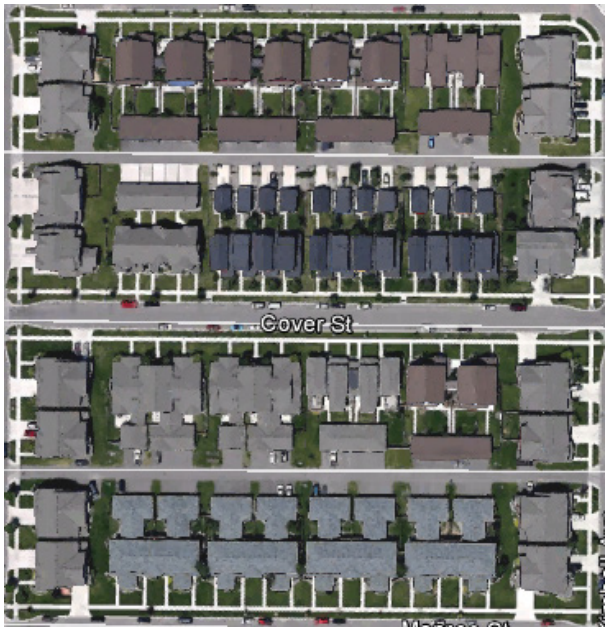
Store Type	% of Total Spending	Avg. Sales Per Sq. Ft.	Spending Capt. Rate	Supportable Square Feet						
Households (Surrounding Area)				**500**	**1,500**	**2,500**	**3,500**	**4,500**	**5,500**	**6,500**
Retail Spending										
Convenience Goods	11.6%	$300	15.0%	1,800	5,400	9,150	12,750	16,350	19,950	23,700
General Merchandise	N/A	N/A	N/A	0	0	0	0	0	0	0
Other Shopper's Goods	6.9%	$275	5.0%	400	1,200	1,950	2,750	3,550	4,350	5,150
Eating and Drinking	6.1%	$275	10.0%	700	2,100	3,500	4,800	6,200	7,600	9,000
Building Material & Garden	N/A	N/A	N/A	0	0	0	0	0	0	0
Total Retail Sq. Ft.	**24.7%**	**$287**	**11.0%**	**2,900**	**8,700**	**14,600**	**20,300**	**26,100**	**31,900**	**37,850**

[1] 2010-2014 ACS Estimate

Source: 2012 Census of Retail Trade; Economic & Planning Systems

New residential development in the city is currently being developed at a density of 4.0 to 7.0 dwelling units per net developable acre (DU/acre) with most occurring at the lower density range. Residential development with a net density of 6.0 DU/acre results in approximately 2,300 households within a 0.5-mile radius and can support roughly 11,000 square feet of commercial development (**Table 16**).

Net density of approximately 4.5 units per acre



Net density of approximately 7.0 units per acre.

Table 16
Development Capacity (0.15, 0.5, and 1.0-mile radius)

Description	Surrounding Radius 0.25 mi	0.50 mi	1.00 mi
Developable Area			
Gross Developable Area (Acres)	125.6	502.4	2,009.6
ROW (25% of gross)	31.4	125.6	502.4
Net Developable Area (75% of gross)	94.2	376.8	1,507.2
Housing Units and Net Density			
5.0 DU/Acre	471	1,884	7,536
6.0 DU/Acre	565	2,261	9,043
7.0 DU/Acre	659	2,638	10,550
8.0 DU/Acre	754	3,014	12,058
9.0 DU/Acre	848	3,391	13,565
10.0 DU/Acre	942	3,768	15,072
11.0 DU/Acre	1,036	4,145	16,579
12.0 DU/Acre	1,130	4,522	18,086

Source: Economic & Planning Systems

B-1 Zoning Conclusions

- At current household densities, B-1 commercial centers must rely on spending from households outside of a 0.5-mile radius they were envisioned to serve. Some B-1s meet this criterion as they are located on arterial streets, or are on or near the N. 19th Avenue corridor and therefore benefit from additional traffic and visibility. In other words, current densities—especially on the periphery of Bozeman—are not high enough to support significant retail demand in a B-1 without being able to draw from a larger area.
- If the density of surrounding development is increased, B-1 commercial centers can be made more viable and development may accelerate in them. Retail and restaurant businesses in B-1 neighborhood centers start to become more viable, assuming a half mile trade area, at an estimated net density of 8 dwelling units per acre.
- The success of any individual B-1 area will depend on the strength and quality of the business mix, the specific location, and surrounding demographics.
- B-1 zoning can serve a variety of community and neighborhood needs besides daily shopping and neighborhood dining. There is demand for small office and studio space, childcare facilities, and health and wellness businesses. Having a diverse business mix within neighborhoods can enhance quality of life. This flexibility of uses should be maintained in the B-1 areas.

B-2 Community Business Districts Analysis

B-2 Districts are intended to include a mix of larger community oriented retail/commercial space. As a result, the estimated household spending capture rates of B-2 districts are higher than B-1 districts (25.9 percent in B-2 districts compared to 6.7 percent in B-1 districts). Traditionally, community shopping centers are 100,000 to 150,000 square feet in size and are anchored by a grocery store. New grocery stores begin at about 50,000 square feet, but have been growing to 60,000 to 70,000 square feet as they offer more prepared foods and general merchandise.

As shown, at least 6,500 households more are needed to support a grocery store (**Table 17**). At the current rate of housing development, averaging 600 units per year over the past 10 years in the city, and 800 to 1,000 per year in the Gallatin Valley, a new grocery store could be supported in the market in about the next five years. The likely location would be on the west side of Bozeman, the direction in which Bozeman is growing. A site here could also capture drive in demand from Belgrade and the unincorporated areas just outside the city including Four Corners.

Table 17
B-2 District Supportable Square Feet by Household Spending

Store Type	% of Total Spending	Avg. Sales Per Sq. Ft.	Spending Capt. Rate	Supportable Square Feet						
Household Growth (Community-wide)				**500**	**1,500**	**2,500**	**3,500**	**4,500**	**5,500**	**6,500**
Retail Spending										
Supermarket	6.9%	$450	75.0%	3,750	10,500	18,000	25,500	32,250	39,750	46,500
Other Convenience Goods	4.7%	$300	65.0%	3,250	9,750	16,250	22,100	28,600	35,100	41,600
General Merchandise	N/A	N/A	N/A	0	0	0	0	0	0	0
Other Shopper's Goods	6.9%	$350	25.0%	1,500	4,750	7,750	10,750	14,000	17,000	20,250
Eating and Drinking	6.1%	$300	25.0%	1,500	4,750	8,000	11,000	14,250	17,500	20,500
Building Material & Garden	N/A	N/A	N/A	0	0	0	0	0	0	0
Total Retail Sq. Ft.	**24.7%**	**$356**	**46.7%**	**10,000**	**29,750**	**50,000**	**69,350**	**89,100**	**109,350**	**128,850**

[1] 2010-2014 ACS Estimate

Source: 2012 Census of Retail Trade; Economic & Planning Systems

B-2 Zoning Conclusions

- A 75-acre B-2 district can accommodate over 400,000 square feet of retail/ commercial development. This was the size of the "power center" development format that emerged in Bozeman in the early 2000s when retail was expanding rapidly. Given market conditions in the national retail landscape, and the typical 100,000 to 150,000 square foot community shopping center size, it is not realistic to expect that an entire B-2 will build out as retail.
- The B-2 areas do allow for numerous other commercial service and employment uses. This flexibility should be maintained, as these areas can also support office development that is in demand, as well as other services.
- Adding additional housing density near or even in B-2 zoning areas can benefit retail development. Bozeman can also consider more flexibility for high density residential development in B-2 zoning areas. Currently, it is only allowed as a conditional use if it is on the ground floor. Some limitations on residential development could include the following:
  - Limited to a percentage of land area; and/or
  - May not front the arterial streets or hard corner (the best retail/commercial locations).

Neighborhood Commercial Development Strategies

Many cities work to attract large anchor retailers and to keep their retail tenant inventory and building stock up to date. These efforts address larger scale retail needs at the city and regional level to reduce sales and sales tax leakage due to competition with surrounding communities. Since there is no local (or state) sales tax in Montana, there is little fiscal motivation for these types of retail recruitment and marketing programs.

The approaches to encouraging neighborhood retail or business growth are often linked to broader economic development programs and are very different from national tenant recruitment and incentive-based approaches. A key difference is that many of the programs for encouraging neighborhood commercial development are used to revitalize or support existing commercial districts, not newly developing areas. Neighborhood retail approaches tend to follow the 'economic gardening' model—growing local businesses and capacity—through low interest loans; technical assistance; best practices tool kits; and main street, merchant, and district associations. Two examples are provided below.

Portland, OR

Portland's Neighborhood Economic Development Strategy is executed through a combination of three programs: the Neighborhood Prosperity Initiative (NPI), Venture Portland, and the Portland Main Street Program. The objectives of the Neighborhood Economic Development Strategy are to build local capacity, drive neighborhood business growth, and align and coordinate resources to support neighborhood economic development. Specific NPI objectives include increasing the visibility of the business district, growing jobs, strengthening existing businesses, and filling vacant spaces. Venture Portland supports local business districts through marketing, district grants, and technical assistance. The Portland Main Street Program follows the National Main Street Program and works to revitalize commercial districts and support small businesses, following the National Trust for Historic Preservation's Main Street Program structure of activities: Organization, Promotion, Design, and Economic Restructuring. In addition to grants and revolving loan funds, tax increment financing (TIF) is sometimes used to incentivize neighborhood commercial revitalization.

Fort Collins, CO

Fort Collins shares many characteristics with Bozeman including a large student population, growing technology and advanced manufacturing sectors, and a high quality of life. Like Bozeman, Fort Collins has several neighborhood commercial areas in its land use plan and zoning. Fort Collins has also struggled to attract commercial development to these areas. Staff have observed that as it is difficult to create new un-anchored retail locations without significant housing density. In Fort Collins, the major retailers look for locations on two key commercial arterials, and smaller tenants follow the larger anchor businesses. So far, there has not been any significant smaller scale retail/commercial development outside of the historic Downtown or the major commercial corridors. The City's incentive approaches are structured to address retail leakage by returning a portion of 'net new' sales tax revenue to new retailers, and offering TIF for major projects. Fort Collins has a similar entrepreneurial climate, and has a revolving loan fund to support new business creation.

THIS PAGE INTENTIONALLY LEFT BLANK

6. OFFICE AND INDUSTRIAL MARKET

This chapter summarizes national and local trends in the office and industrial markets, followed by a review of trends in office and industrial construction and market share within the Gallatin Valley. Other market indicators such as rent levels, development and land costs, and qualitative information gathered from interviews conducted by EPS is also included.

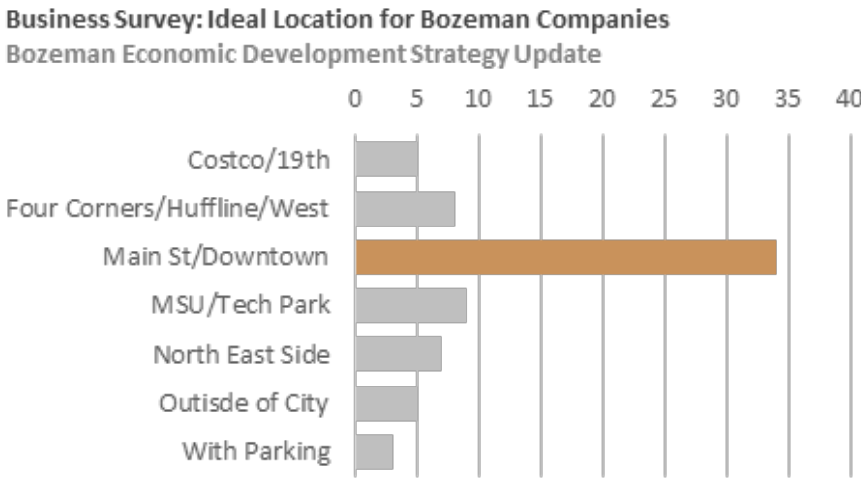
Office Market Trends

There are numerous trends, workforce, and demographic factors affecting the national office market. This section discusses the four major trends with the most potential to influence the local market in Bozeman.

Location Preferences

Nationally, there are trends in office development moving away from the suburban office park or corporate campus to more mixed use, centrally located, and often transit-accessible locations (in major urban areas). Much of this trend relates to the housing and neighborhood preferences of Generation X and Millennial-aged workers who wish to have more access to amenities near work such as shopping, services, and dining. This mix of land uses allows workers to combine errand and work trips to save time. It also provides a more interesting and pleasant environment—especially for people who wish to spend less time in their cars. Some firms also see value in being close (walking, bicycling, or a short car or transit trip) to customers and other business partners as it allows for convenient frequent contact as well as spontaneous interactions on the street or in restaurants or coffee shops. There is evidence of these trends in interviews with economic developers conducted by EPS in major western cities, economic development and real estate literature, and data in the City's *Economic Development Strategy*.

Figure 27
Location Preferences for Bozeman Businesses



In the *Bozeman Economic Development Strategy*, firms were surveyed on their ideal location. Nearly 35 percent of all businesses indicated a desire to be Downtown (**Figure 27**). Among professional services businesses, Downtown was the most desired location (approximately 20 percent) followed by the MSU Tech Park (10 percent). All other locations made up the balance of preferences for professional services.

More Efficient Office Space

Businesses are leasing less office space per person than in past years. Technology has reduced the need for paper records storage space, and new workplace designs are more efficient. Open floor plans and shared spaces are becoming more common. In these settings, workers are freer to move around an office with a laptop and mobile phone. The National Association for Industrial and Office Parks (NAIOP) reported in 2015 that the average office lease size had dropped by approximately 10 percent from 2004 through 2014. Some of the trend in efficiency (more workers per square foot of building area) is driven by cost. Fast growing industries like technology are not necessarily cutting space requirements as they desire spacious and luxurious offices to attract the highest skilled talent. Slower growth industries such as law and accounting are reducing their space requirements to cut costs.

Co-Working Space

Co-working space is a new type of office space in which tenants rent desk(s) space in a space shared with other workers and firms. They are popular with small new firms, which can be in any field including professional services, creative industries, and technology. Tenants have access to conference rooms and shared office equipment (e.g. printers). The benefits of co-working space are that they typically have lower tenant finish levels and lower cost than traditional office space and are flexible in that they give a firm a low-cost way to grow from one to a few employees. They also offer, and are marketed for, opportunities for collaboration and knowledge sharing with likeminded people and potential business partners. Some also offer events including networking, speakers, and skill development workshops.

Co-working space is popular with entrepreneurs and remote workers. It is becoming more common in major and mid-sized cities but is still a small portion of the total office market. Co-working spaces in Bozeman include Blue Ocean Innovation Center (19th and West Lincoln), CoWork Bozeman (East Main between Black and Tracy), and Regus a worldwide leader in co-work space that recently opened 15,000 square feet on the second floor of the 5 West building Downtown.

Innovation Districts

"Innovation districts" can be defined as economic development tools that utilize partnerships with higher education institutions, businesses, and government to fuel job growth and redevelopment in targeted locations. Innovation districts are based on the premise that collaboration and productivity result from proximity; therefore, job creation and innovation can be fostered through the intentional clustering of businesses, institutions, ideas, and people.

One model for innovation districts is to anchor the district at a major research institution. These are typically in downtown or mid-town settings. Examples include the Kendall Square/MID cluster in Cambridge; the University City/University of Pennsylvania cluster in Philadelphia; and the Saint Louis/Washington University and Saint Louis University cluster in Saint Louis.

The MSU Technology Park, which MSU is working to develop, is an example of an innovation district. This planned project is located along the south frontage of West College just west of 23rd Avenue. MSU is proposing approximately 263,000 square feet of R&D space on a 40-acre campus just west of the Advanced Technology Park.

Gallatin Valley Office Market

The demand for office development and construction is driven by job growth in industries and occupations that use office space. In the Gallatin Valley, those sectors are primarily professional services and health care, and financial services (banking and insurance). The City of Bozeman has been the location of most office development, with nearly 862,000 square feet constructed over the last 16 years, capturing 80 percent of the regional office market (**Table 18**). Some of the largest buildings constructed during this time period include:

- A 37,500-square foot office building for a construction company;
- An 18,000-square foot medical office building at the hospital;
- A 25,000-square foot office and retail building in the Gateway development (West College and West Main);
- At Huffine and Cottonwood, an 18,000-square foot office building and 11,000 square foot building for a sports medicine clinic;
- The 17,200-square foot Crowley Fleck law offices; and
- The Mountain View professional building on the north side of Main at Cypress.

There were also several other buildings in the 4,000 to 8,000 square foot range.

Table 18
Gallatin Valley Office Construction Trends

Area	2000-2006	2007-2011	2012-2016	Total Sq. Ft.	Ann. Sq. Ft.	2000-2016 Market Share
Belgrade Area	88,000	31,000	9,000	128,000	7,529	11.9%
Bozeman	404,000	101,000	357,000	862,000	50,706	80.1%
Four Corners Area	36,000	25,000	25,000	86,000	5,059	8.0%
Total	**528,000**	**157,000**	**391,000**	**1,076,000**	**63,294**	**100.0%**

Source: MT Dept. of Revenue GIS; Economic & Planning Systems' Analysis

- **Tenant Characteristics** - Interviews conducted by EPS indicate that most office tenants look for spaces in the 1,000 to 4,000 square foot range. The few larger buildings noted above were medical-related and a law firm making a major expansion in Bozeman.
- **Rents and Construction Costs** – Office rents are approximately $18 to $20 per square foot (plus operating expenses) and $25 for new construction (plus operating expenses). Rents are reported to be expensive for small professional firms. Rents are a function of construction costs, which are approximately $250 per square foot including land and $180 to $210 without land. These figures result in a 10 percent return on cost or less, which is a small margin given the risks in real estate development and construction.

- **Land Costs** – Land costs are relatively high in Bozeman compared to the regional market. Well located finished pad sites that are shovel ready sell for $65 to $75 per square foot of land. Raw land that needs to be planned, developed, and taken through the City process costs roughly $12 to $14 per square foot.
- **Supply** - There is very little available office space in Bozeman. It is challenging for developers to expand the supply for several reasons. First, most tenants are looking for small blocks of space meaning that a speculative building will need to find numerous tenants, which may result in a long lease up period. Second, it is reported to be difficult to make office development financially feasible with the rents the market can bear and the construction and land costs.

The office market in other areas is comprised of local small businesses and professionals. There is far less demand for office space outside of Bozeman currently. Bozeman has a larger labor pool and the other services and amenities such as restaurants, shopping, and other services, which make it more appealing as an office location. Developers also report that the Bozeman identity is important to some businesses.

Gallatin Valley Industrial Market

The trends in industrial construction are the inverse of the office market. Over past 16 years, the Gallatin Valley market added 1.9 million square feet of industrial space. Over half of this was in Belgrade and nearly 40 percent was in the Four Corners area. Bozeman captured only 10 percent of the industrial market (**Table 19**). Not included in these figures is an 80,000-square foot facility occupied by Vista (outdoor brand wholesaler) and Blackhawk manufacturing, which makes injection molded firearm accessories. Simms Fishing Products built a 61,000-square expansion in 2016 in Four Corners. In 2012, FedEx built a 35,000-square foot distribution building at Jackrabbit and Baxter also in Four Corners. Smith Equipment, a manufacturer of high capacity off road (mining) trailers, built a 30,000-square foot building in Belgrade in 2010. Frito Lay also constructed a small 10,000 square foot warehouse in Belgrade in 2010.

Table 19
Gallatin Valley Industrial Construction Trends

Area	2000-2006	2007-2011	2012-2016	Total Sq. Ft.	Ann. Sq. Ft.	2000-2016 Market Share
Belgrade Area	479,000	268,000	238,000	985,000	57,941	51.4%
Bozeman	128,000	34,000	28,000	190,000	11,176	9.9%
Four Corners Area	378,000	160,000	204,000	742,000	43,647	38.7%
Total	**985,000**	**462,000**	**470,000**	**1,917,000**	**112,765**	**100.0%**

Source: MT Dept. of Revenue GIS; Economic & Planning Systems' Analysis

- **Tenant Characteristics** - The buildings noted above were among the largest new facilities. Of the approximately 100 buildings developed over this time period, approximately half were 6,000 to 7,000 square feet or smaller. These smaller buildings are used by maintenance and repair businesses, some of which are automotive; construction and trades firms; small wholesalers/ distributors. Small manufacturing firms, which are an important component of Bozeman's economic development strategy, also occupy smaller industrial and flex-space buildings.
- **Land Costs** – Land costs are considerably lower outside Bozeman. In Four Corners, land with highway frontage ranges from $8.00 to $10.00 per square foot. These sites are more attractive to businesses that need showroom space and visibility. Interior sites are in the $5.00 to $6.00 per square foot range.
- **Construction Costs** – Development fees in Belgrade are reported to be similar to Bozeman. The design standards in Belgrade are less prescriptive which results in modest construction cost savings. In Four Corners, which is in the unincorporated County, development fees are substantially lower and there are minimal design standards. This has created for the time being a cost advantage in Four Corners. Water supply constraints will eventually temper the growth of Four Corners.

THIS PAGE INTENTIONALLY LEFT BLANK

7. LAND DEMAND PROJECTIONS

This chapter provides estimates of land that will be needed to support the next approximately 25 years of growth in and around the City of Bozeman. The chapter begins with a population and employment projection that forms the basis of the demand estimates by major land use type. Next, these projections are converted to new housing and new commercial space (dwelling units and square feet). The land requirements from the projected amount of growth are then estimated and compared to the amount of land available in the City, estimated by major zoning type. Summary tables and calculations are presented in this chapter, with more detailed supporting data provided in the **Appendix**.

Forecasts and projections are by their nature estimates. They are to be used in the process of thinking about the vision for the future of Bozeman and the Gallatin Valley and how it may evolve and grow over the next 25 years. These projections are not a statement that certain lands will be developed; they are estimates of the land needed to support continued growth based on population and job growth trends over the past 15 years, and an expectation of continued economic growth albeit at a more moderate pace. The Growth Policy Update process will gather input from the public on how, where, and if the City should grow and the goals, objectives, and policies that will govern and manage future growth.

Population and Employment Projection

The methodology used to estimate future land demand begins with an employment projection. Future employment is converted to the estimated labor force and population needed to support the growth of employment (**Figure 28**). EPS' employment projection estimates 1.5 percent annual job growth in Gallatin County over the next roughly 25 years (**Table 20**). EPS considered historic employment data presented in Chapters 1 and 2 as well as forecasts commissioned by the Montana Department of Commerce in developing this projection.

Job growth has been robust in Gallatin County since 2001 with 3.1 percent annual growth (1,920 jobs per year) and 3.7 percent annual growth since the recession (2010-2015; 2,600 jobs per year). In contrast, the Montana Department of Commerce forecasts prepared by a private firm (REMI Economic Models, Inc.) estimates a 0.9 percent annual growth rate for Gallatin County and most other Counties in western Montana, well below the past 15 years of observed data. REMI's forecasts use a methodology that is more weighted to State level economic activity; local variations are sometimes blended into broader statewide or regional averages.

EPS evaluated growth rates by industry and in total and arrived at an overall job growth rate of 1.5 percent from 2017 through 2045. A tapering growth rate is used to moderate the pace of growth over this long of a planning period. On an annual basis, job growth is 1,500 jobs per year over the roughly 25-year forecast period, tapering down from 1,700 jobs per year in the near term to 1,300 per year in the last five years of the projection. This is equivalent to 1,500 jobs per year countywide and a total increase of 42,000 jobs. For comparison, the past 15-year average was an increase of 1,900 jobs per year.

Table 20
Gallatin County Employment Projection

Description	2017	2020	2030	2040	2045	2017-2045 Total	2017-2045 Ann. #	2017-2045 Ann. %
Forestry, fishing, and related activities	741	801	951	1,046	1,090	349	12	1.4%
Mining, quarrying, and oil and gas extraction	621	656	773	877	928	307	11	1.4%
Utilities	121	125	143	162	171	51	2	1.3%
Construction	7,650	8,178	10,216	12,210	13,154	5,504	197	2.0%
Manufacturing	3,842	4,198	5,166	5,864	6,201	2,360	84	1.7%
Wholesale trade	2,177	2,327	2,781	3,157	3,339	1,162	41	1.5%
Retail trade	9,772	10,332	11,902	13,018	13,513	3,741	134	1.2%
Transportation and warehousing	1,799	1,966	2,529	3,090	3,391	1,592	57	2.3%
Information	1,036	1,095	1,290	1,497	1,613	577	21	1.6%
Finance and insurance	2,678	2,862	3,421	3,883	4,107	1,429	51	1.5%
Real estate and rental and leasing	5,984	6,327	7,452	8,459	8,945	2,961	106	1.4%
Professional, scientific, and technical services	7,266	7,768	9,284	10,538	11,144	3,878	139	1.5%
Management of companies and enterprises	347	387	501	591	636	290	10	2.2%
Admin, Support, Waste Mgmt, and Remediation Srvcs	3,003	3,245	3,936	4,468	4,725	1,722	62	1.6%
Educational services	1,608	1,796	2,326	2,740	2,952	1,343	48	2.2%
Health care and social assistance	6,343	6,781	8,286	9,545	10,094	3,751	134	1.7%
Arts, entertainment, and recreation	3,064	3,276	3,915	4,444	4,700	1,636	58	1.5%
Accommodation and food services	8,287	9,055	11,393	13,419	14,456	6,169	220	2.0%
Other services (except public administration)	3,863	4,084	4,705	5,146	5,342	1,479	53	1.2%
Government and government enterprises	10,220	10,336	10,973	11,692	12,025	1,805	64	0.6%
Unclassified	0	0	0	0	0	0	0	---
Total	**80,421**	**85,597**	**101,944**	**115,845**	**122,525**	**42,104**	**1,504**	**1.5%**
Annual Increase		*1,725*	*1,635*	*1,390*	*1,336*			
Annual Rate		*2.1%*	*1.8%*	*1.3%*	*1.1%*			

Source: BEA; Economic & Planning Systems

Figure 28
Employment to Labor Force Methodology

1. Gallatin County Labor Force
Total Wage & Salary Employment
Less: W&S Multiple Job Holders
Subtotal: W&S Employees in Gallatin County
Less: In-Commuters
Plus: Out-Commuters
Subtotal: W&S Labor Force
Plus: Unemployed
Plus: Proprietors (adjusted for BEA overcount)
Subtotal: Gallatin County Labor Force
Plus: Population not in the Labor Force
Total Population

2. Gallatin County Housing Units
Total Population
Less: Group Quarters
Total Population in Households
Plus: Vacant Housing
Total Housing Demand

Several steps are required to convert employment to labor force and population, illustrated above in **Figure 28**. The summary of the population forecast is shown below in **Table 21**. To support the projected job growth in all of Gallatin County, a population increase of nearly 55,000 is required or almost 2,000 people per year at an annual rate of 1.52 percent. From 2000 through 2016, Gallatin County added an average of 2,200 people each year.

Table 21
Gallatin County Population and Housing Projection

Description	Factors	2017	2020	2030	2040	2045	Change 2017-2045 Total	Change 2017-2045 Annual	Change 2017-2045 Growth Rate
Labor Force to Population									
Total Employment		80,421	85,597	101,944	115,845	122,525	42,104	1,504	1.52%
Gallatin County Labor Force		97,424	103,693	123,497	140,337	148,429	51,005	1,822	1.52%
Plus: Population not in the Labor Force		7,561	8,047	9,584	10,891	11,519	3,958	141	1.52%
Population		**104,984**	**111,741**	**133,081**	**151,228**	**159,948**	**54,964**	**1,963**	**1.52%**
Population to Housing Units									
Less: Group Quarters	4.04%	4,242	4,514	5,377	6,110	6,462	2,221	79	1.52%
Household Population		100,743	107,226	127,704	145,118	153,486	52,743	1,884	1.52%
Households	2.38	42,329	45,053	53,657	60,974	64,490	22,161	791	1.52%
Plus: Vacant Housing	13.00%	6,325	6,732	8,018	9,111	9,636	3,311	118	1.52%
Total Housing Units		**48,654**	**51,785**	**61,675**	**70,085**	**74,126**	**25,472**	**910**	**1.52%**
Gallatin County Housing Demand			*2017-2020*	*2021-2030*	*2031-2040*	*2041-2045*			
New Units			**3,130**	**9,890**	**8,410**	**4,040**	**25,470**	**910**	
Annual			1,043	989	841	808			

Source: Economic & Planning Systems

After accounting for the group quarters population (students in dorms, people in other group housing) and an allowance for vacant housing units, the projected population growth equates to demand for **25,470 new housing units**. Over the 2017 through 2045 time period, this is equivalent to **910 housing units per year**, compared to actual construction trends of approximately 1,100 per year countywide from 2005 through 2016. These figures represent demand in all of Gallatin County. The next step is to estimate housing demand and construction in Bozeman.

Housing and Land Demand

Bozeman has consistently accounted for about half of the population and housing growth in Gallatin County, and this projection assumes that this trend continues. Therefore, the projection estimates demand for 12,700 new housing units in Bozeman over the 2017 through 2045 time period (**Table 22**). On an annual basis, construction is projected at approximately 500 units per year on average for the next 10 to 13 years, and slowing to 400 to 420 units per year after 2030.

The distribution of units is held constant from the last 10 years of building permit data from the City:

- 35 percent single household detached
- 30 percent attached single household units (townhomes, duplexes, fourplexes)
- 35 percent multifamily housing (condominiums and apartments)

These percentages may shift over time, and shifts in the types of units being constructed will have an impact on land consumption, but it is highly speculative to try to estimate these shifts at the local level. In the next step, we estimate a range of housing densities (dwelling units per acre and residential lot sizes) to evaluate how changes in the market and in development practices (and City policies and regulations) will affect the land demand associated with these projections.

Table 22
Bozeman Housing Projection

Description	Factors	2017-2020	2021-2030	2031-2040	2041-2045	Change 2017-2045 Total	Change 2017-2045 Annual
Gallatin County Housing Demand		3,130	9,890	8,410	4,040	25,470	910
Bozeman Market Share	50.0%	1,565	4,945	4,205	2,020	12,735	455
Bozeman Construction Projection							
Single-Family (Detached)	35.0%	548	1,731	1,472	707	4,457	159
Townhomes (Attached)	10.0%	157	495	421	202	1,274	45
Duplex (2 units)	10.0%	157	495	421	202	1,274	45
Triplex/Fourplex	10.0%	157	495	421	202	1,274	45
Multifamily	35.0%	548	1,731	1,472	707	4,457	159
Total	**100.0%**	**1,565**	**4,945**	**4,205**	**2,020**	**12,735**	**455**
Annual		*522*	*495*	*421*	*404*		

[1] Mobile homes and other miscellaneous housing types are not included.

Source: Economic & Planning Systems

Two scenarios for residential land demand were prepared: a baseline scenario that continues the approximate development densities from the last decade, and a more compact development scenario. For example, in the baseline scenario, single household detached homes are modeled at 3 units per acre gross density, which translates to a lot size of 7,100 square feet (4.3 units per acre net density) as shown in **Table 23**. The compact development scenario increases gross densities to 5 units per acre for single household detached homes which is an average lot size of 4,300 square feet (roughly 40 to 45 feet wide by 90 to 100 feet deep).

Multifamily densities are increased from 20 units per acre to 25 units per acre on average. These could potentially be increased further (above 30 to 35 units per acre) if accompanied by a reduction in parking requirements, and there is a trend in reducing parking in multifamily development following a decrease in vehicle ownership per capita.

Table 23
Residential Density Factors

Unit Type	Gross Density Units/Acre	Net to Gross Factor	Net Density Units/Acre	Typical Lot Size Sq. Ft.
Baseline Scenario				
Single-Family (Detached)	3.0	70%	4.3	7,100
Townhomes/Triplex/Fourplex (Attached)	6.0	70%	8.6	3,600
Duplex (2 units)	4.0	70%	5.7	5,300
Multifamily	20.0	70%	28.6	N/A
Compact Development Scenario				
Single-Family (Detached)	5.0	70%	7.1	4,300
Townhomes/Triplex/Fourplex (Attached)	10.0	70%	14.3	2,100
Duplex (2 units)	8.0	70%	11.4	2,700
Multifamily	25.0	70%	35.7	N/A

Source: Economic & Planning Systems

At these densities, the baseline scenario requires 3,100 acres of residential land over the next 25 to 30 years (**Table 24**). The more compact scenario requires an estimated 1,800 acres of residential land (40 percent less). Single household home lot sizes and densities have the largest impact on land demand, comprising 70 percent of the residential acreage in each scenario.

Table 24
Bozeman Residential Land Demand Projection

Description	Units per Acre (Gross)	Land Demand (Acres) 2017-2020	2021-2030	2031-2040	2041-2045	Total	Annual
Baseline Land Demand							
Single-Family (Detached)	3.0	183	577	491	236	1,486	53
Townhomes (Attached)	6.0	26	82	70	34	212	8
Duplex (2 units)	4.0	39	124	105	51	318	11
Multifamily	20.0	8	25	21	10	64	2
Total Acres		**256**	**808**	**687**	**330**	**2,080**	**74**
Higher Density Scenario							
Single-Family (Detached)	5.0	110	346	294	141	891	32
Townhomes (Attached)	10.0	16	49	42	20	127	5
Duplex (2 units)	8.0	20	62	53	25	159	6
Multifamily	25.0	6	20	17	8	51	2
Total Acres		**151**	**477**	**406**	**195**	**1,229**	**44**

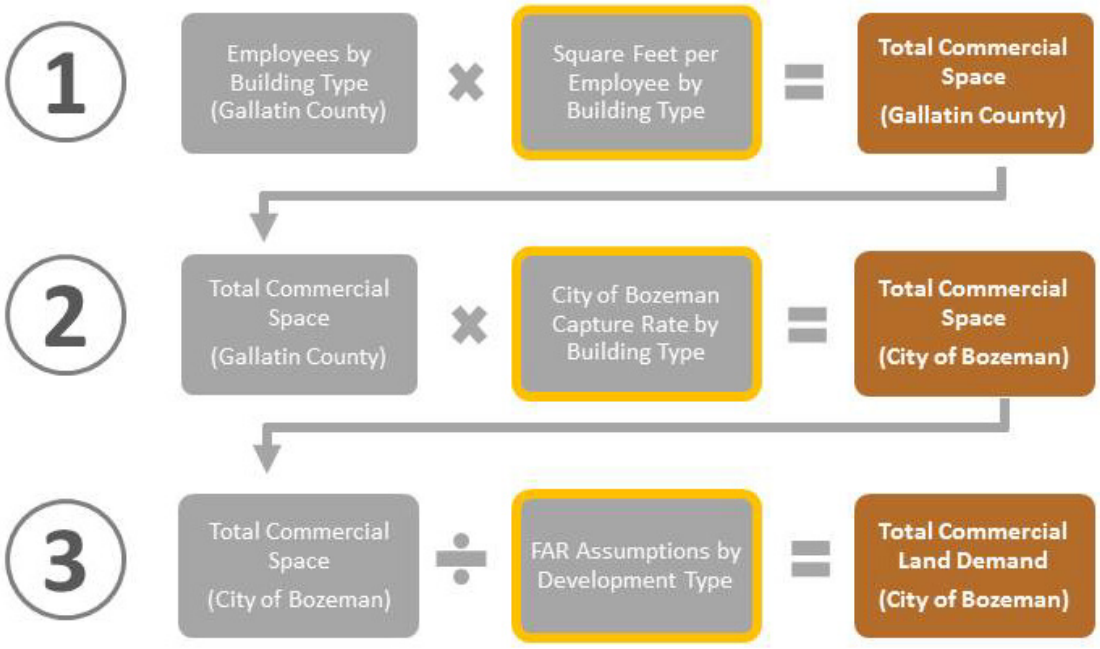
[1] Mobile homes and other miscellaneous housing types are not included.

Source: Economic & Planning Systems

Commercial Land Demand

The demand for commercial construction and land is estimated from the same employment projection presented above. The process for converting jobs to commercial space is illustrated below in **Figure 29**. The process requires several informed estimates and assumptions documented in the **Appendix**, highlighting the fact that these are projections for planning purposes not precise estimates or statements about the amount of development that will occur in Bozeman.

Figure 29
Conversion of Jobs to Commercial Space and Acreage



The key factors used to convert jobs to commercial space (square feet of building) are summarized in **Table 25**. The square feet of building area per employee ranges from 250 for office to 750 square feet per employee for industrial/flex/R&D buildings and institutional buildings. Floor area ratios (FAR) are the ratio of gross building area to site size. FARs are estimated at 0.30 for office to 0.5 for accommodations and food services.

Table 25
Commercial Land Demand Assumptions

Land Use/Industry	Sq. Ft. per Employee	Floor Area Ratio	Bozeman Market Share
Office	250	0.30	80%
Industrial/Flex Space	750	0.15	10%
Retail	350	0.25	70%
Accommodation and Food Services	300	0.50	75%
Institutional	750	0.30	75%

Source: Economic & Planning Systems

Bozeman's market share of Gallatin County commercial construction was estimated from past employment trends by community and data on commercial construction presented in Chapters 2, 5, and 6. Using the factors above and in Appendix Tables 1 through 3, the projected employment growth is converted to square feet of commercial buildings. From 2017 through 2045, the projections imply demand for 12.4 million square feet of commercial construction in Gallatin County and 6.3 million square feet in Bozeman. As shown, Bozeman is assumed to capture 80 percent of the office market, 70 percent of the retail market, 75 percent of the hospitality market, and 75 percent of institutional demand (e.g. government, MSU, major hospitals).

Table 26
Commercial Construction Projection

Land Use	Market Share	New Construction 2017-2020	2021-2030	2031-2040	2041-2045	Total	Annual
Gallatin County							
Office		246,000	815,000	712,000	337,000	2,110,000	75,000
Industrial/Flex Space		596,000	1,833,000	1,536,000	746,000	4,711,000	168,000
Retail		287,000	828,000	626,000	288,000	2,029,000	72,000
Accommodation and Food Services		184,000	561,000	486,000	249,000	1,480,000	53,000
Institutional		217,000	810,000	741,000	337,000	2,105,000	75,000
Total Sq. Ft.		**1,530,000**	**4,847,000**	**4,101,000**	**1,957,000**	**12,435,000**	**443,000**
Bozeman							
Office	80.0%	197,000	652,000	570,000	270,000	1,689,000	60,000
Industrial/Flex Space	10.0%	60,000	183,000	154,000	75,000	472,000	17,000
Retail	70.0%	201,000	580,000	438,000	202,000	1,421,000	51,000
Accommodation and Food Services	75.0%	138,000	421,000	365,000	187,000	1,111,000	40,000
Institutional	75.0%	163,000	607,000	555,000	253,000	1,578,000	56,000
Total Sq. Ft.		**759,000**	**2,443,000**	**2,082,000**	**987,000**	**6,271,000**	**224,000**

Source: Economic & Planning Systems

These high projected market shares contrast with an estimated 10 percent of the industrial distribution and flex space market. Flex space is industrial like space with showroom or office space in the front of the building. In some markets, R&D and lab space is a component of the industrial market, and Bozeman would be more competitive for this type of higher value space with skilled labor occupying it.

By market segment or land use type, these figures equate to about 60,000 square feet of annual construction in the office market, 17,000 square feet of industrial/warehouse construction, 51,000 square feet of retail per year, 40,000 square feet of restaurant and hotel space, and 56,000 square feet per year of institutional space.

Building square footage is converted to gross land area by applying a floor area ratio (FAR) factor. Over the projection period, non-residential land demand is estimated at approximately 500 acres, or 18 acres per year (**Table 27**). The last step is to make an upward adjustment for planning flexibility and market competition, and to compare the resulting numbers to the supply of undeveloped land in the City.

Table 27
Bozeman Commercial Land Demand Projection

Land Use	FAR	New Acreage 2017-2020	2021-2030	2031-2040	2041-2045	Total	Annual
Bozeman							
Office	0.30	15	50	45	20	130	4.6
Industrial/Flex Space	0.15	10	30	25	10	75	2.7
Retail	0.25	20	55	40	20	135	4.8
Accommodation and Food Services	0.50	5	20	15	10	50	1.8
Institutional	0.30	10	45	40	20	115	4.1
Total Acres		**60**	**200**	**165**	**80**	**505**	**18.0**

Source: Economic & Planning Systems

In long range land use planning it is common practice to add an upward adjustment to land demand estimates for two primary reasons. First, flexibility is needed to identify the area's most appropriate for the types of land uses that will be in demand. There will always be site configuration, roadway access, topography, and drainage considerations that will affect what areas are most suitable. Also, a range of site and area types are needed. In commercial development there are usually prime sites with the highest visibility and best configurations, and other sites where businesses may not need to pay the premium for the best site. Perhaps the most important reason for the adjustment is to allow for competition in the market among landowners. If a small area has most of the zoned land for a particular land use, those land owners will have a monopoly on that type of land and be able to charge higher prices than if there was more competition.

After adjusting for planning flexibility and market competition, the baseline scenario totals to 3,900 acres of land and the higher density scenario totals to 2,600 acres (**Table 28**). In both cases, residential land demand comprises 70 to 80 percent of the total land demand, highlighting the importance of housing on the physical form of a community.

Table 28
Summary of Land Demand Projections

	2017-2045 Land Demand			
Land Use	**Baseline**	**Density**	**Higher Density**	**Density**
Residential				
Single-Family (Detached)	1,486	3.0 units/ac.	891	5.0 units/ac.
Townhomes (Attached)	212	6.0 units/ac.	127	10.0 units/ac.
Duplex (2 units)	318	4.0 units/ac.	159	8.0 units/ac.
Multifamily (Greater than 3 units)	64	20.0 units/ac.	51	25.0 units/ac.
Subtotal	**2,080**		**1,229**	
Planning Adjustment (+50%)	**1,040**		**614**	
Total	**3,120**		**1,843**	
Commercial				
Office	130	0.30 FAR	130	0.30 FAR
Industrial/Flex Space	75	0.15 FAR	75	0.15 FAR
Retail	135	0.25 FAR	135	0.25 FAR
Accommodation and Food Services	50	0.50 FAR	50	0.50 FAR
Institutional	115	0.30 FAR	115	0.30 FAR
Subtotal	**505**		**505**	
Planning Adjustment (+50%)	**253**		**253**	
Total	**758**		**758**	
Total	**3,878**		**2,601**	
Square Miles (640 ac. per section)	**6.1**		**4.1**	

Source: Economic & Planning Systems

Very roughly, these acreages translate to about 4 to 6 sections of land area (4 to 6 square miles) assuming that all development was on undeveloped land. There are however many opportunities in Bozeman to fill in existing enclaves (land surrounded or nearly surrounded by incorporated Bozeman that has not been annexed). Infill and redevelopment will reduce the amount of new land that is consumed by growth. In particular, The Midtown (North 7th corridor) has several large properties that can support a large amount of additional housing and employment. Infill and redevelopment in that type of setting has the most potential to affect net land demand. In other cases where, for example, one housing unit is replaced by only one or two units, there is much less of an impact on net land consumption.

The amount of land available for infill development can be estimated, but it is uncertain as to how much land will actually be redeveloped as it varies widely according to the economic conditions (e.g. existing profitable businesses) of each individual property and the desires of individual property owners.

Land Supply

Each year the City prepares estimates of unbuilt land in each zoning district, with estimates of land in two categories: land that has infrastructure (streets and major utilities) at its boundary or within it, and land where extensive infrastructure extensions may be needed. The readiness of land for development is highly site specific and there will always be some exceptions in each general category, but the City's inventory provides a useful gauge of the land supply.

EPS and Sanderson Stewart further categorized the land supply by status and tabulated acreage by broad zoning category to compare to the land demand estimates above. Right of way and public open space were removed from this land inventory. This comparison comes with a major caveat: the City's zoning code allows a lot of flexibility in the types of land uses that are allowed in each zoning district, so a simple comparison along the lines of "all retail demand will be allocated to the B2 and B1 districts" is not practical or possible. Instead, we have tabulated the acreages in three very broad categories:

- Commercial: Includes all B zones and historic mixed use. These districts allow a wide range of retail, office, and other employment and commercial uses.
- Industrial: Includes the M-1 and M-2 industrial zoning districts which also allow a range of other commercial and office uses.
- Residential: Includes all primarily residential zones, residential mixed-use, and university mixed use zones.

The City estimates that there are approximately 500 acres of undeveloped commercial land, 140 acres of industrial land, and 1,900 acres of residential land (**Table 29 and Table 30**). In the residential zones, most of the remaining vacant land is not well served with infrastructure. Residential land that has infrastructure is comprised of scattered unbuilt lots and remaining lots in newer subdivisions and master planned developments. Scattered lots are not as efficiently absorbed by the market as lots in larger subdivisions and master planned developments and therefore take longer to meet housing demand.

Table 29
Comparison of Undeveloped Land and Demand by Major Land Use

	Major Zoning Type			
Description	**Commercial and Mixed Use**	**Industrial**	**Residential**	**Total**
Total Undeveloped Land	505	141	1,890	2,537
Under Development	-64	0	-131	-195
Subtotal	**441**	**141**	**1,759**	**2,342**
Constraint Adjustment	0	0	-461	-461
Estimated Vacant Land	**441**	**141**	**1,298**	**1,881**
2017-2040 Demand				
Baseline	**645**	**113**	**3,120**	**3,878**
Higher Density	**645**	**113**	**1,843**	**2,601**

Source: City of Bozeman, Sanderson Stewart, Economic & Planning Systems

Table 30
Undeveloped Land by Zoning

Description	Zoning District																		Total
	B-1	B-2	B-2M	B-3	BP	HMU	M-1	M-2	R-1	R-2	R-3	R-4	R-5	REMU	R-MH	R-O	R-S	UMU	
	Commercial						*Industrial*		*Residential*										
Undeveloped Land																			
Little/No infrastructure	5	196	0	0	90	0	36	65	235	86	240	152	6	109	34	98	374	0	**1,724**
With Some Infrastructure	15	182	4	0	11	2	39	1	6	56	22	258	130	9	6	0	39	33	**813**
Total Undeveloped	**20**	**378**	**4**	**0**	**101**	**2**	**75**	**66**	**241**	**142**	**262**	**410**	**136**	**117**	**40**	**98**	**413**	**33**	2,537
Under Development	0	-64	0	0	0	0	0	0	-41	0	-50	-20	0	0	0	-20	0	0	**-195**
Subtotal	**20**	**314**	**4**	**0**	**101**	**2**	**75**	**66**	**200**	**142**	**212**	**390**	**136**	**117**	**40**	**78**	**413**	**33**	2,342
Constraint Adjustment	0%	0%	0%	0%	0%	0%	0%	0%	-15%	-5%	-75%	-15%	0%	0%	0%	0%	-50%	0%	
Estimated Vacant Land	**20**	**314**	**4**	**0**	**101**	**2**	**75**	**66**	**170**	**135**	**53**	**332**	**136**	**117**	**40**	**78**	**207**	**33**	1,881
Estimated Under Review or Development	**0**	**64**	**0**	**0**	**0**	**0**	**0**	**0**	**41**	**0**	**50**	**20**	**0**	**0**	**0**	**20**	**0**	**0**	**195**

Source: City of Bozeman, Sanderson Stewart, Economic & Planning Systems

Land Supply Conclusions

Residential Land

Much of the projected market demand will be in the residential market with an estimated 1,800 to 3,100 acres in demand over the 2017 through 2045 time period. The current supply is approximately 1,300 acres or 40 to 70 percent of the projected demand. The Growth Policy process will need to look in more detail at the remaining supply of residential land to determine how much of the existing supply can realistically meet future demand.

Industrial Land

The North Park properties are an important opportunity for the City to expand the supply of employment and industrial land. Roughly 150 acres in the North Park area are owned by the State of Montana in the school land trust. The State has leased its holdings to a master developer for eventual development, although there are transportation access and utility infrastructure hurdles that need to be addressed. North Park is well-located for industrial development, but also for other employment uses including R&D and office. North Park may be the City's best current opportunity for expanding employment lands within its current incorporated boundary.

Another large area of industrial land (at least 150 acres after deducting right-of-way) is the Idaho Pole property between I-90 and the railroad, northeast of Downtown. There have been concepts circulated in the community to redevelop the Idaho Pole property as housing and mixed use. The Growth Policy process should consider if this area should remain industrial or transition to housing and other types of employment. The Growth Policy process could consider adding to the supply of industrial land, particularly if the Idaho Pole property is rezoned. Adding new industrial land that does not involve redevelopment would be absorbed more easily by the market than a site with redevelopment costs and potential environmental remediation costs.

Commercial Land

Chapter 5 contains an analysis of B-1 Neighborhood Business and B-2 Community Business zoning districts. To recap, Chapter 5 suggests a reduction and or re-allocation of some of the B-1 and B-2 zoned land. Some B-2 areas on the edge of the developed areas are likely to create an oversupply of commercial land. Some B-1 districts are too close together and may be too large as well.

It will be challenging to balance the supply of commercially zoned land in Bozeman. While there is a fairly large supply of undeveloped land, many of the best located sites have been developed leaving less desirable sites as remnants of larger developments and business parks. To support economic development, we recommend that the Growth Policy update address these additional issue areas:

- **Employment Land –** Bozeman will benefit from additional land for high quality office and R&D development. These lands need to be well located and close to mixed use and lifestyle amenities such as restaurants and limited retail and services, and be accessible by car, bicycle, and by foot.
- **Retail Land –** While the retail market is in transition, a portion of the retail market will continue to expand with the growing population. One approach would be to designate the North 19th and Huffine corridors as the large scale regional retail locations, and to allow for continued neighborhood and community retail areas in locations where housing development is expected. Again, any new B-1 and B-2 areas may need to be scaled down in size from previous land use and zoning designations.

THIS PAGE INTENTIONALLY LEFT BLANK

Appendix

Table A-1
Employment, Labor Force, Population, and Housing Forecast, Gallatin County

Description	Factor	Factor Description	2015	2016	2017	2020	2030	2040	2045	2017-2045 Change	Ann. Change	Growth Rate
EMPLOYMENT FORECAST												
Gallatin County Labor Force												
Total Wage & Salary Employment	1.55%		77,169	78,776	80,421	85,597	101,944	115,845	122,525	42,104	1,504	1.5%
Less: W&S Multiple Job Holders	7.80%	*Bureau of Econ. Analysis (BEA)*	-6,019	-6,145	-6,273	-6,677	-7,952	-9,036	-9,557			
Subtotal: W&S Employees in Gallatin County			**71,150**	**72,631**	**74,148**	**78,920**	**93,992**	**106,809**	**112,968**			
Less: In-Commuters	21.2%	*LEHD On the Map 2015*	-15,084	-15,398	-15,719	-16,731	-19,926	-22,644	-23,949			
Plus: Out-Commuters	16.2%	*LEHD On the Map 2015*	13,785	14,072	14,366	15,290	18,211	20,694	21,887			
Subtotal: W&S Labor Force			**69,851**	**71,305**	**72,795**	**77,479**	**92,276**	**104,859**	**110,906**			
Plus: Unemployed	3.00%	*Bureau of Labor Statistics*	2,096	2,139	2,184	2,324	2,768	3,146	3,327			
Plus: Proprietors	28.51%	*BEA*	30,768	31,409	32,065	34,128	40,646	46,188	48,852			
Less: Proprietor Overcount Adjustment	30.00%	*BEA; Census Non-Proprietor Statistic*	-9,230	-9,423	-9,619	-10,238	-12,194	-13,857	-14,656			
Subtotal: Gallatin County Labor Force			**93,484**	**95,431**	**97,424**	**103,693**	**123,497**	**140,337**	**148,429**			
POPULATION FORECAST												
Gallatin County Population												
Gallatin County Labor Force			93,484	95,431	97,424	103,693	123,497	140,337	148,429	51,005	1,822	1.5%
Plus: Population not in the Labor Force	7.20%		7,255	7,406	7,561	8,047	9,584	10,891	11,519			
Total Population			**100,739**	**102,837**	**104,984**	**111,741**	**133,081**	**151,228**	**159,948**	**54,964**	**1,963**	**1.5%**
Ann. % Change				*2.1%*	**2%**	*2.1%*	*1.5%*	*1.1%*	*1.1%*			
Gallatin County Housing Units												
Total Households	2.38	*2015 1-Year ACS*	40,617	41,463	42,329	45,053	53,657	60,974	64,490	22,161	791	1.5%
Plus: Vacant Housing	13.00%	*2015 1-Year ACS*	6,069	6,196	6,325	6,732	8,018	9,111	9,636			
Total Housing Units			**46,686**	**47,659**	**48,654**	**51,785**	**61,675**	**70,085**	**74,126**	**25,472**	**910**	**1.5%**

Source: Economic & Planning Systems

H:\173007-Bozeman Land Use Forecasts\Models\[173007-Housing Demand Model-01-03-2017.xlsm]MODEL

Table A-2
Employment Forecast by Industry

Description	2017	2020	2030	2040	2045	2017-2045 Total	2017-2045 Ann. #	2017-2045 Ann. %
Forestry, fishing, and related activities	741	801	951	1,046	1,090	349	12	1.4%
Mining, quarrying, and oil and gas extraction	621	656	773	877	928	307	11	1.4%
Utilities	121	125	143	162	171	51	2	1.3%
Construction	7,650	8,178	10,216	12,210	13,154	5,504	197	2.0%
Manufacturing	3,842	4,198	5,166	5,864	6,201	2,360	84	1.7%
Wholesale trade	2,177	2,327	2,781	3,157	3,339	1,162	41	1.5%
Retail trade	9,772	10,332	11,902	13,018	13,513	3,741	134	1.2%
Transportation and warehousing	1,799	1,966	2,529	3,090	3,391	1,592	57	2.3%
Information	1,036	1,095	1,290	1,497	1,613	577	21	1.6%
Finance and insurance	2,678	2,862	3,421	3,883	4,107	1,429	51	1.5%
Real estate and rental and leasing	5,984	6,327	7,452	8,459	8,945	2,961	106	1.4%
Professional, scientific, and technical services	7,266	7,768	9,284	10,538	11,144	3,878	139	1.5%
Management of companies and enterprises	347	387	501	591	636	290	10	2.2%
Admin, Support, Waste Mgmt, and Remediation Srvcs	3,003	3,245	3,936	4,468	4,725	1,722	62	1.6%
Educational services	1,608	1,796	2,326	2,740	2,952	1,343	48	2.2%
Health care and social assistance	6,343	6,781	8,286	9,545	10,094	3,751	134	1.7%
Arts, entertainment, and recreation	3,064	3,276	3,915	4,444	4,700	1,636	58	1.5%
Accommodation and food services	8,287	9,055	11,393	13,419	14,456	6,169	220	2.0%
Other services (except public administration)	3,863	4,084	4,705	5,146	5,342	1,479	53	1.2%
Government and government enterprises	10,220	10,336	10,973	11,692	12,025	1,805	64	0.6%
Unclassified	0	0	0	0	0	0	0	---
Total	**80,421**	**85,597**	**101,944**	**115,845**	**122,525**	**42,104**	**1,504**	**1.5%**
Annual Increase		*1,725*	*1,635*	*1,390*	*1,336*			
Annual Rate		*2.1%*	*1.8%*	*1.3%*	*1.1%*			

Source: BEA; Economic & Planning Systems

H:\173007-Bozeman Land Use Forecasts\Models\[173007-Emp-Space Forecast-Baseline Forecast 12-29-2017.xlsm]S-Emp

Table A-3
Employment by NAICS to Land Use Conversion

Description	Office	Industrial	Retail Trade / Commercial	Accom. and Food Services	Institutional	Total	Employees with No Space Demand
Forestry, fishing, and related activities	0.0%	25.0%	0.0%	0.0%	0.0%	**25.0%**	75.0%
Mining, quarrying, and oil and gas extraction	0.0%	25.0%	0.0%	0.0%	0.0%	**25.0%**	75.0%
Utilities	10.0%	50.0%	0.0%	0.0%	0.0%	**60.0%**	40.0%
Construction	10.0%	25.0%	0.0%	0.0%	0.0%	**35.0%**	65.0%
Manufacturing	0.0%	75.0%	0.0%	0.0%	0.0%	**75.0%**	25.0%
Wholesale trade	0.0%	75.0%	0.0%	0.0%	0.0%	**75.0%**	25.0%
Retail trade	0.0%	0.0%	90.0%	0.0%	0.0%	**90.0%**	10.0%
Transportation and warehousing	0.0%	50.0%	0.0%	0.0%	0.0%	**50.0%**	50.0%
Information	60.0%	0.0%	0.0%	0.0%	0.0%	**60.0%**	40.0%
Finance and insurance	70.0%	0.0%	10.0%	0.0%	0.0%	**80.0%**	20.0%
Real estate and rental and leasing	25.0%	0.0%	25.0%	0.0%	0.0%	**50.0%**	50.0%
Professional, scientific, and technical services	50.0%	15.0%	15.0%	0.0%	0.0%	**80.0%**	20.0%
Management of companies and enterprises	50.0%	0.0%	0.0%	0.0%	0.0%	**50.0%**	50.0%
Admin, Support, Waste Mgmt, and Remediation Srvcs	50.0%	20.0%	10.0%	0.0%	0.0%	**80.0%**	20.0%
Educational services	30.0%	0.0%	20.0%	0.0%	30.0%	**80.0%**	20.0%
Health care and social assistance	50.0%	0.0%	0.0%	0.0%	40.0%	**90.0%**	10.0%
Arts, entertainment, and recreation	10.0%	20.0%	20.0%	0.0%	0.0%	**50.0%**	50.0%
Accommodation and food services	0.0%	0.0%	0.0%	80.0%	0.0%	**80.0%**	20.0%
Other services (except public administration)	25.0%	25.0%	25.0%	0.0%	0.0%	**75.0%**	25.0%
Government and government enterprises	50.0%	0.0%	0.0%	0.0%	50.0%	**100.0%**	0.0%
Unclassified	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	100.0%
Weighted Average	**25%**	**14%**	**17%**	**8%**	**10%**	**74%**	

Source: Economic & Planning Systems

H:\173007-Bozeman Land Use Forecasts\Models\[173007-Emp-Space Forecast-Baseline Forecast 12-29-2017.xlsm]I-Space Demand Assump.