

Midway East Corridor Commercial Market Analysis Summary of Findings and Recommendations



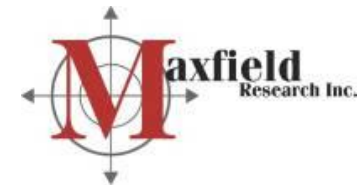
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July 24, 2013





Agenda

1. Commercial Real Estate Focus Group Summary
2. Station Areas & Site Location Overview
3. Demographic & Employment Analysis
4. Commercial Market Analysis
5. Demand Summary by Location
6. Sites Strengths and Weaknesses



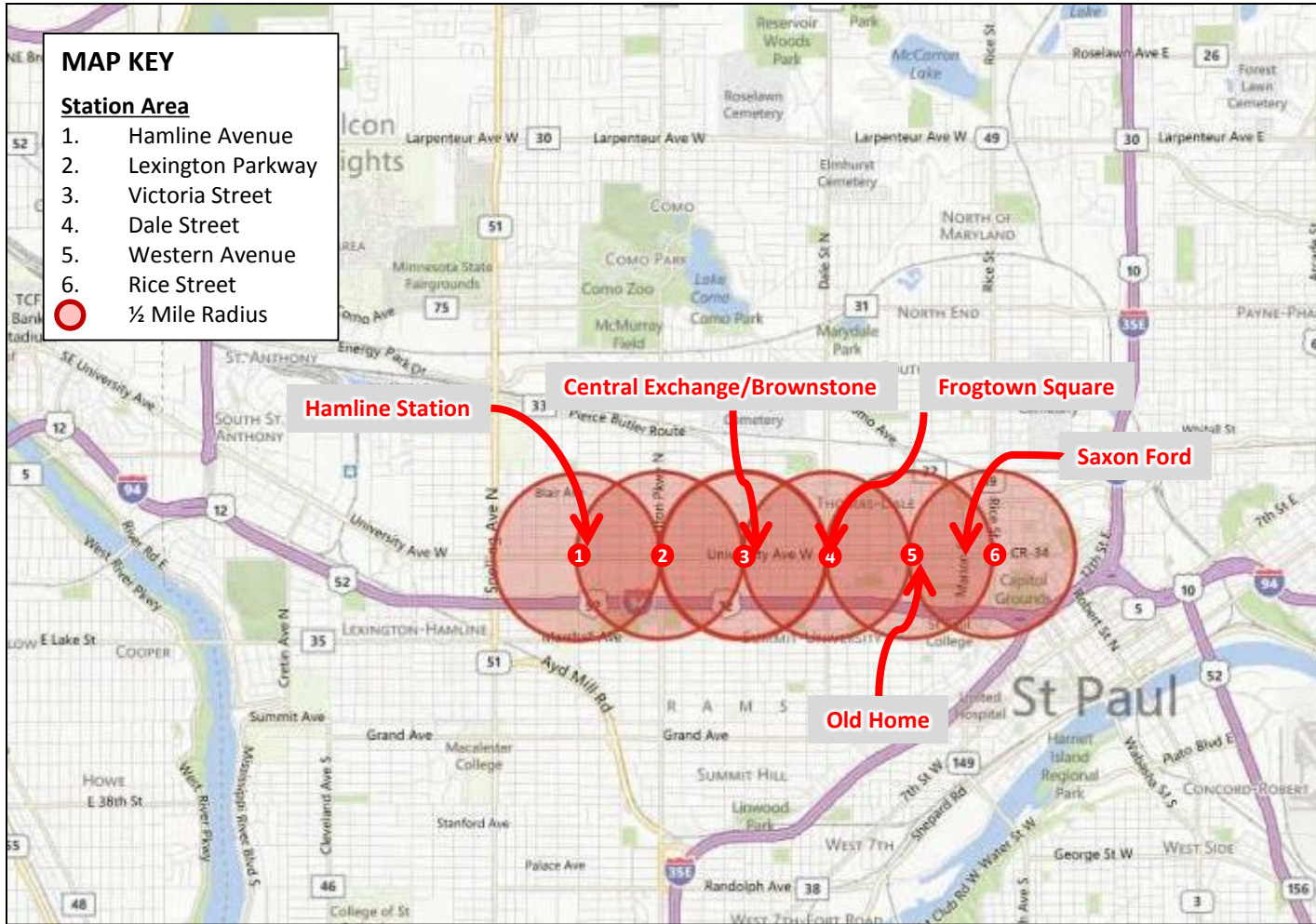
Commercial Market Analysis

Findings and Recommendations

August 2013



Station Areas and Site Locations (1/2 mile radius)



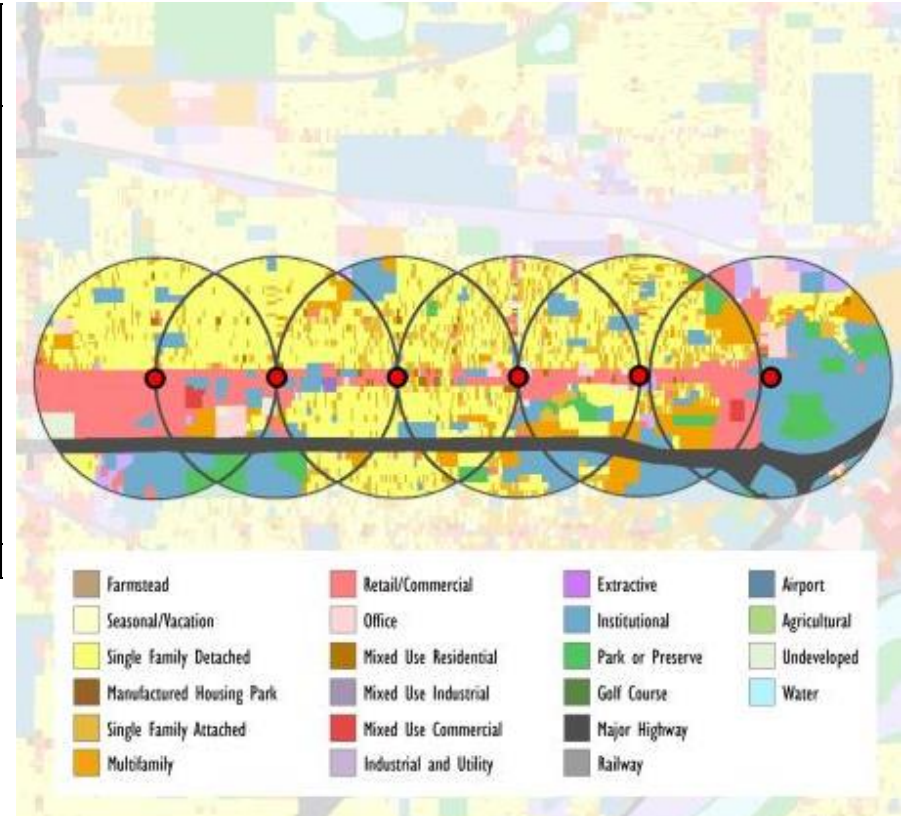


Station Areas and Site Locations

Existing Land Use

EXISTING LAND USE MIDWAY EAST CORRIDOR July 2013				
	Parcels	% of Total	Acres	% of Total
Single Family Detached	4,317	68.8%	516	37.1%
Single Family Attached	899	14.3%	105	7.5%
Multifamily	181	2.9%	102	7.3%
Retail/Commercial	326	5.2%	194	14.0%
Office	41	0.7%	25	1.8%
Mixed Use Industrial	34	0.5%	31	2.3%
Mixed Use Commercial	9	0.1%	13	0.9%
Institutional	307	4.9%	358	25.7%
Undeveloped	159	2.5%	46	3.3%
Total:	6,274	100%	1,391	100%

Sources: Ramsey County; MFRA; Maxfield Research, Inc.





Demographic & Economic Analysis

- Between 2000 and 2010, the population in the area within a one-half mile radius of each station area declined. The two easternmost station areas (Saxon Ford and Old Home) experienced the largest declines during the decade. However, between 2010 and 2020, growth is expected to be strongest in the areas surrounding the stations closest to Downtown St. Paul.
- The Corridor is comprised of relatively young households, as the largest number of householders is in the 25-34 age group (22.5% of the total), followed by the 35-44 cohort (19.8%).
- Incomes are relatively low, with a median household income of \$29,326 which is 41% lower than in Ramsey County... Lowest incomes found in the Dale Street, Western Avenue and Rice Street station areas.
- The Corridor is becoming more racially diverse as 30.7% of the population was White in 2010 compared to 48.5% in 1990. The proportion of the population that is Black increased from 30.0% in 1990 to 36.7% in 2010 while the Asian population increased from 15.5% (1990) to 22.7% (2010).



Demographic & Economic Analysis

- Job growth has occurred in the Corridor... In 2000, there were 27,858 jobs in the Midway East Corridor ZIP Codes and 197,909 jobs in St. Paul. Despite the economic recession, Corridor employment climbed to 34,425 for a 23.6% gain between 2000 and 2010.
- The Education and Health Services industry is, by far, the largest employment sector in the Corridor, providing over 16,000 jobs (45.3% of total employment).
- Average weekly wages in the Midway East Corridor (\$707) are -30% lower than St. Paul (\$1,016) and -34% lower than the Twin Cities (\$1,076). Wages increased over the year, rising 1.4% in the Corridor, 1.9% in St. Paul, 3.0% in the Metro Area.
- Most station areas in the Corridor can be considered importers of workers, as the number of workers coming to the area for employment (inflow) exceeds the number of workers leaving the area for jobs (outflow).



Commercial Market Analysis

Retail Market

- 2012 was the strongest year for retail activity in the Twin Cities market since 2007, with over 691,000 square feet of absorption during the year.
- The positive absorption in the market generated a 0.1 percentage point drop in vacancy from 8.4% in 2011 to 8.3% in 2012, the lowest vacancy since 2008.
- Several retail concepts have been active in the market, including; fitness users, self-serve frozen yogurt, fast-casual sandwich shops, quick-serve food concepts, grocery stores (ALDI, Trader Joe's, Whole Foods), CVS and Walgreens.



Commercial Market Analysis

Office Market

- The Twin Cities office market posted approximately 967,000 square feet of positive absorption during 2012, with most submarkets recording positive absorption.
- Class A properties have the tightest vacancy rate, 13.5% across the market compared to 22.0% in other classes.
- Space absorption pushed the direct vacancy rate down 1.2 percentage point over the past year to 18.0% at year-end 2012... lowest rate since 2008.
- Demand for office space in the Midway East Corridor will be most influenced by conditions in the St. Paul CBD and the Northeast submarket. Vacancy in these two submarkets remains relatively high at 23.6% and 18.8%, respectively.



Commercial Market Analysis

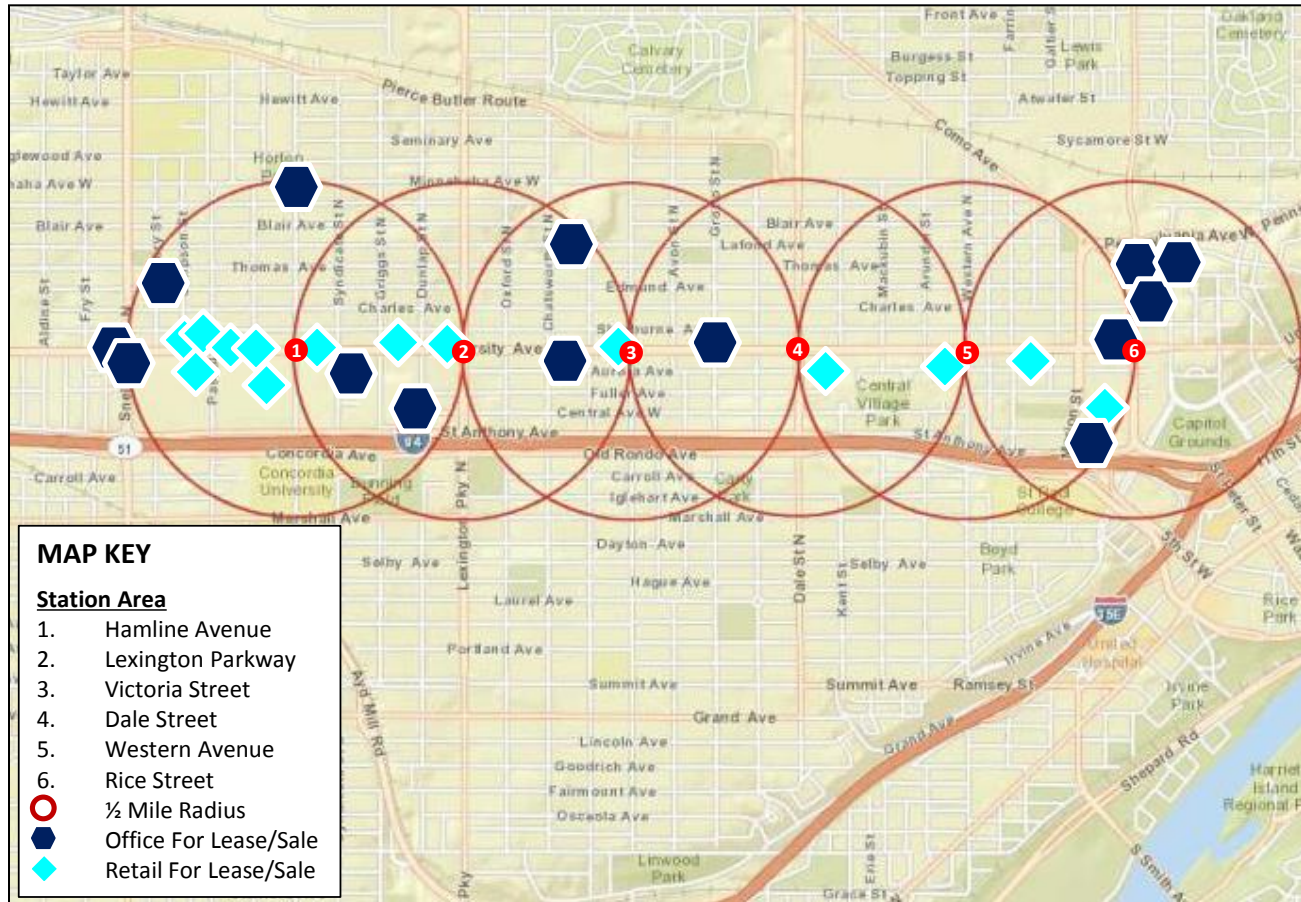
Medical Office Market

- Overall medical office vacancy is 9.7% across the Twin Cities, the lowest since 2006, and many On Campus facilities are essentially full with eight hospital campuses reporting zero vacancy. Off Campus properties are 11.6% vacant, compared to 7.6% vacancy in On Campus facilities.
- Absorption in 2012 totaled 164,000 square feet. Roughly 110,000 square feet of Off Campus space were absorbed during the year while On Campus facilities experienced 54,000 square feet of absorption.
- There are ten medical office properties in or near the Midway East Corridor, totaling 762,000 square feet. These properties were approximately 21% vacant at the time of the survey.



Commercial Market Analysis

Active Commercial Listings in the Corridor



- 103,248 SF of retail space is listed for lease
- Average rent of \$13.52 psf Net, significantly lower than \$26.96 across the Metro Area
- 2 retail properties are listed for sale (28,000 SF) at an average price of \$98 psf
- 188,728 SF of office space is listed for lease
- Average rent of \$8.44 psf Net (\$18.41 Gross), lower than the Twin Cities Net rate of \$12.81 (\$23.81 Gross)
- There are 5 office properties listed for sale (94,000 SF) at an average sale price of \$82 psf



Commercial Market Analysis

Retail Development Potential

- Growth in the Corridor household base along with inflation will generate an increase in retail expenditures over the next several years.
- Average annual household expenditures in the Corridor are low, restraining growth in retail demand.

DEMAND FOR RETAIL SPACE MIDWAY EAST CORRIDOR 2013 to 2020			
	2013	2018	2020
Retail Demand from Trade Area			
Trade Area Households	8,676	8,950	9,055
(times) Annual Household Expenditures ¹	x \$13,948	\$15,400	\$16,022
(equals) Total Trade Area Expenditures	= \$121,012,848	\$137,827,485	\$145,078,012
(plus) Approx. % Leakage Outside the Trade Area ²	+ 0%	0%	0%
(equals) Leakage Outside of Trade Area	= \$0	\$0	\$0
(equals) Total Purchasing Power	\$121,012,848	\$137,827,485	\$145,078,012
(divided by) Average sales per Sq. Ft.	/ \$270	\$293	\$304
(equals) Total Retail Space Demand (Sq. Ft.)	= 447,524	469,662	477,510
Growth in retail demand 2013 to 2020		29,986	



Commercial Market Analysis

Retail Development Potential

- Additional retail demand may be generated from transit ridership and daytime population.
- National retailers are unsure who their market will be along the Midway East Corridor and have not yet been ready to risk moving into new/unproven markets.
- Local businesses are more likely to be willing to move into the Corridor, but may have a harder time paying the lease rates necessary for new development.
- There is a current retail trade surplus in the Corridor, primarily in the area surrounding the two westernmost station areas as the Corridor draws in customers from outside of the immediate area. Opportunity to recapture leakage is greatest in the areas surrounding the centrally-located stations at Victoria Street, Dale Street and Western Avenue.



Focus Group Summary

Key Findings

- Most national-credit tenants currently express a preference to locate near Midway Marketplace, while local businesses are more likely to occupy spaces further to the east. They may need to expand or may want to have more than one location.
- Retailers have stated that they generally prefer to be on the south side of University to share access and parking with the major existing retailers in the area; many prospective tenants have noted that the transit stations block visibility to north sites when standing on the south side.
- The south side of University, from Snelling to Syndicate Street consists of suburban-style retail centers with large surface parking lots.
- Small, narrow lots on the north side of University are a greater challenge to develop.
- On-site parking is considered by retailers to be critical to the success of their businesses.



Focus Group Summary

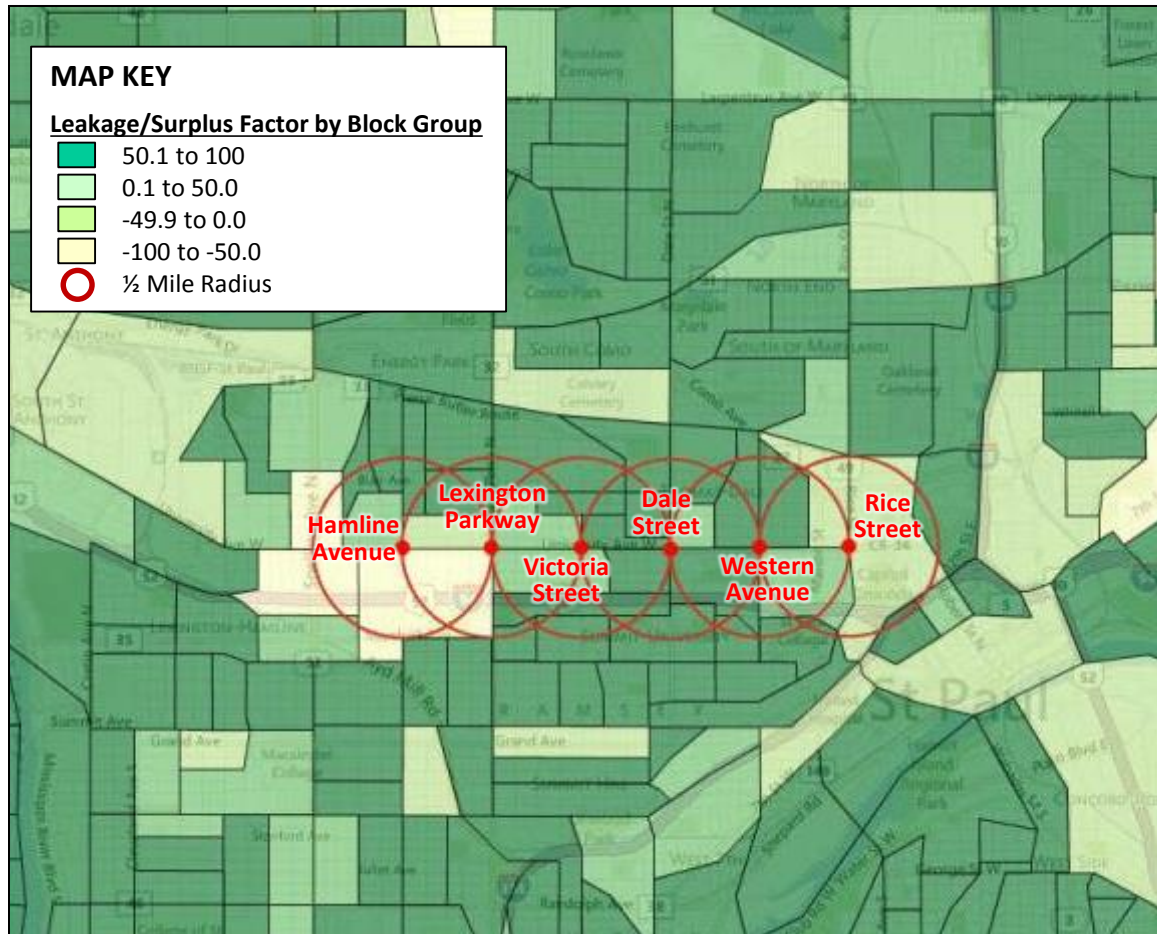
Key Findings

- Retailers that are actively seeking space in the market are generally small independent businesses (hair salons, financial services firms) and many are new to the area.
- National franchises remain somewhat skeptical about the benefits of locating along a light rail transit line.
- Zoning and Code requirements are viewed by many prospective tenants as restrictive; two-story buildings are required and it can be too expensive to construct this product on a small site, especially if the prospect intends on using only the first floor portion of the space.
- A higher level of growth is expected over the next five years, but significant redevelopment with higher density housing will be needed to make commercial/ retail demand grow.



Commercial Market Analysis

Retail Leakage/Surplus



Retail Categories with Existing Leakage

- Auto/Motor Vehicle Dealers
- Furniture Stores
- Electronics & Appliance Stores
- Building Materials, Garden Equip. Stores
- Beer, Wine & Liquor Stores
- Gasoline Stations
- Clothing and Shoe Stores
- Sporting Goods, Hobby, Book & Music Stores
- Florists and used Merchandise Stores
- Full-Service Restaurants
- Limited-Service Eating Places

Retail Categories with Existing Surplus

- Auto Parts
- Grocery Stores
- Health & Personal Care Stores
- Jewelry, Luggage & Leather Goods Stores
- General Merchandise/Department Stores
- Special Foods Services
- Drinking Places – Alcoholic Beverages



Commercial Market Analysis

Office Development Potential

- There are approximately 35,631 jobs in the Corridor, 45.6% of which are in typical office-using industries. We project that by 2020 approximately 2,950 office-occupying jobs will be added in the Corridor.

PROJECTED DEMAND FOR OFFICE SPACE MIDWAY EAST CORRIDOR 2012 to 2020		
	2012	2020
Office Demand from PMA		
Projected number of jobs in the 55104 & 55103 ZIP Codes	35,355	40,025
(times) % of jobs in industry types that typically require office space	x 45.3%	47.4%
(equals) Projected number of office-type jobs in the Market Area	= 16,024	18,972
(times) % of office-type jobs seeking/needing office space*	x 95%	95%
(equals) Projected # of employees in office space in the Market Area	= 15,274	18,084
(times) Square feet of office space per employee	x 175	175
(equals) Projected demand for office space in the Market Area (sq. ft.)	= 2,672,919	3,164,666
Growth in office demand (2012 to 2020)	491,748	
(times) % of Market Area demand growth capturable in Corridor	50% - 60%	
(equals) Office space supportable in Corridor (sq. ft.)	245,874 - 295,049	
* Percent of office-type jobs seeking office space versus home offices or retail spaces.		
Source: Maxfield Research Inc.		



Commercial Market Analysis

Office Development Potential

- Industry sectors that use office space and experiencing growth in the Corridor include: Health Care and Social Assistance; Professional, Scientific, and Technical Services; and Real Estate.
- Based on the size of the business establishments in the area, it appears that a high proportion of office users in the area are likely to require smaller spaces. Roughly 40% of the businesses in the Corridor would require space ranging from 1,000 to 10,000 square feet.
- From 2000 to 2011, significant growth occurred in the number of businesses with between 10 and 20 employees, a trend that suggests a growing need for office spaces in the 2,000 to 4,000 square foot range.



Demand Summary by Location

MIDWAY EAST CORRIDOR PROJECT COMPARISON MATRIX										
	Project Size (sq. ft.)	Demand Summary			Draw Area Characteristics					
		Retail (sq. ft.)	Office (sq. ft.)	Total (sq. ft.)	Businesses Employees	2013 Households HH Growth '13-'20	Med. HH Income	Ave. HH Spending	University Ave AADT	2030 Boardings
Hamline Station	13,700	6,750	7,000	13,750	404 5,148	2,095 1.1%	\$35,300	\$14,802	17,900	600
Victoria Street	25,116	6,000	10,500	16,500	367	2,528	\$31,968	\$15,545	18,200	400
BROWNstone	13,616	3,750	5,250		2,404	2.8%				
Central Exchange*	11,500	2,250	5,250							
Old Home	10,000	6,750	5,250	12,000	335 4,022	2,719 8.8%	\$24,753	\$11,683	17,000	270
Saxon Ford	--	5,250	6,400	11,650	399 11,675	1,498 8.5%	\$19,258	\$9,603	17,100	340
Lexington Pkwy	--				320 3,409	2,418 3.8%	\$30,344	\$14,624	17,900	570
Dale Street	--				374 2,844	2,573 2.6%	\$29,588	\$14,446	18,200	550

Notes:
 -Central Exchange will include 11,500 sq. ft. of commercial space, 86% of which will be occupied by Model Cities, leaving roughly 1,860 sq.ft. available
 -University Ave AADT (Average Annual Daily Traffic) based on 2012 data from MnDOT
 -2030 Boardings represents projected average weekday boardings at the Green Line station nearest the Site from the Metropolitan Council
 -Business count data is provided by ESRI, while the employee count is based on the 2011 commuting pattern data



Strengths and Weaknesses

Site	Site Strengths	Site Limitations
Hamline Station	<ul style="list-style-type: none"> - Location in the shadow of Midway Marketplace - High number of boardings projected at transit station - Large employment base in the surrounding area 	<ul style="list-style-type: none"> - Project on north side of University Avenue - Limited traffic on Hamline Avenue north of University - High crime area south of University
Lexington Parkway	<ul style="list-style-type: none"> - High traffic volumes on surrounding road network and direct access to I-94 - High number of boardings projected at transit station 	<ul style="list-style-type: none"> - Relatively low density of commercial businesses currently located in the draw area
BROWNstone	<ul style="list-style-type: none"> - Adjacent to transit station - Accessible from both Victoria Street and University 	<ul style="list-style-type: none"> - Limited north-south traffic on Victoria Street - Limited parking available on-site and in immediate area
Central Exchange	<ul style="list-style-type: none"> - Majority of space will be leased by Model Cities 	<ul style="list-style-type: none"> - Limited parking available on-site and in immediate area - Not easily accessible by eastbound traffic on University



Strengths and Weaknesses

Dale Street	<ul style="list-style-type: none"> - Relatively high traffic volumes on Dale Street and direct access to I-94 - High number of boardings projected at transit station 	<ul style="list-style-type: none"> - Located in a transition area between Midway Marketplace and Downtown St. Paul
Old Home Dairy	<ul style="list-style-type: none"> - Large redevelopment Site - Relatively large daytime population in draw area - Adjacent to transit station 	<ul style="list-style-type: none"> - Relatively few boardings projected at Western Avenue station - Limited on-site parking
Saxon Ford	<ul style="list-style-type: none"> - Large daytime population - Close proximity to State Capitol complex 	<ul style="list-style-type: none"> - Distance from transit stations - Site not easily accessible for eastbound traffic on University



Potential Target Uses

Site	Retail Targets	Office Targets
Hamline Station	<ul style="list-style-type: none"> - National retailers that want to locate near Midway Marketplace - Small electronics or clothing store 	<ul style="list-style-type: none"> - Health Care and Social Assistance sector - Other Services sector
BROWNstone	<ul style="list-style-type: none"> - Neighborhood/convenience-oriented retailers - Limited-service eating places - Food and beverage stores 	<ul style="list-style-type: none"> - Professional, Scientific, and Tech Services firms - Other Services sector - Administrative and Support agencies
Central Exchange	<ul style="list-style-type: none"> - Small neighborhood-oriented service providers 	<ul style="list-style-type: none"> - Small office-using businesses that are compatible with Model Cities
Old Home Dairy	<ul style="list-style-type: none"> - Limited-service eating places - Food and beverage stores - Health and personal care stores - Sporting goods, hobby, and music stores 	<ul style="list-style-type: none"> - Music production studio - Health Care and Social Assistance sector - Other Services establishments



Potential Target Uses

Site	Retail Targets	Office Targets
Saxon Ford	<ul style="list-style-type: none"> - Full-service restaurants - Clothing and accessories stores - Sporting goods, hobby, and music stores 	<ul style="list-style-type: none"> - Government/quasi-government agencies - Health Care/Social Assistance and Other Services sectors
Lexington Parkway	<ul style="list-style-type: none"> - Food services and drinking places - Health and personal care stores - Clothing and accessories stores 	<ul style="list-style-type: none"> - Professional, Scientific and Tech Services industry - Health Care and Social Assistance - Other Services sector
Dale Street	<ul style="list-style-type: none"> - Food and beverage stores - Health and personal care stores - Limited-services eating places 	<ul style="list-style-type: none"> - Administrative and Support agencies - Other Services sector



Development Strategies

- “One size does not fit all”
- Nodes closest to Snelling Avenue are more likely to experience synergy from the core activity that exists there;
- East end nodes will have a different focus and may be more independent
- Alternate development models (i.e. urban manufacturing)
 - Bring more jobs into the corridor to increase daytime population
 - More housing to increase retail potential
- Major intersections more likely to appeal to retailers that can capture customers from all modes of transportation (car, transit, pedestrian)
- Customer and employee parking will continue as a challenge until and unless the LRT captures a much larger share of transportation usage.
- Redevelopment timeframes and investment should take advantage of marketplace interest and demand to achieve greater resource yields