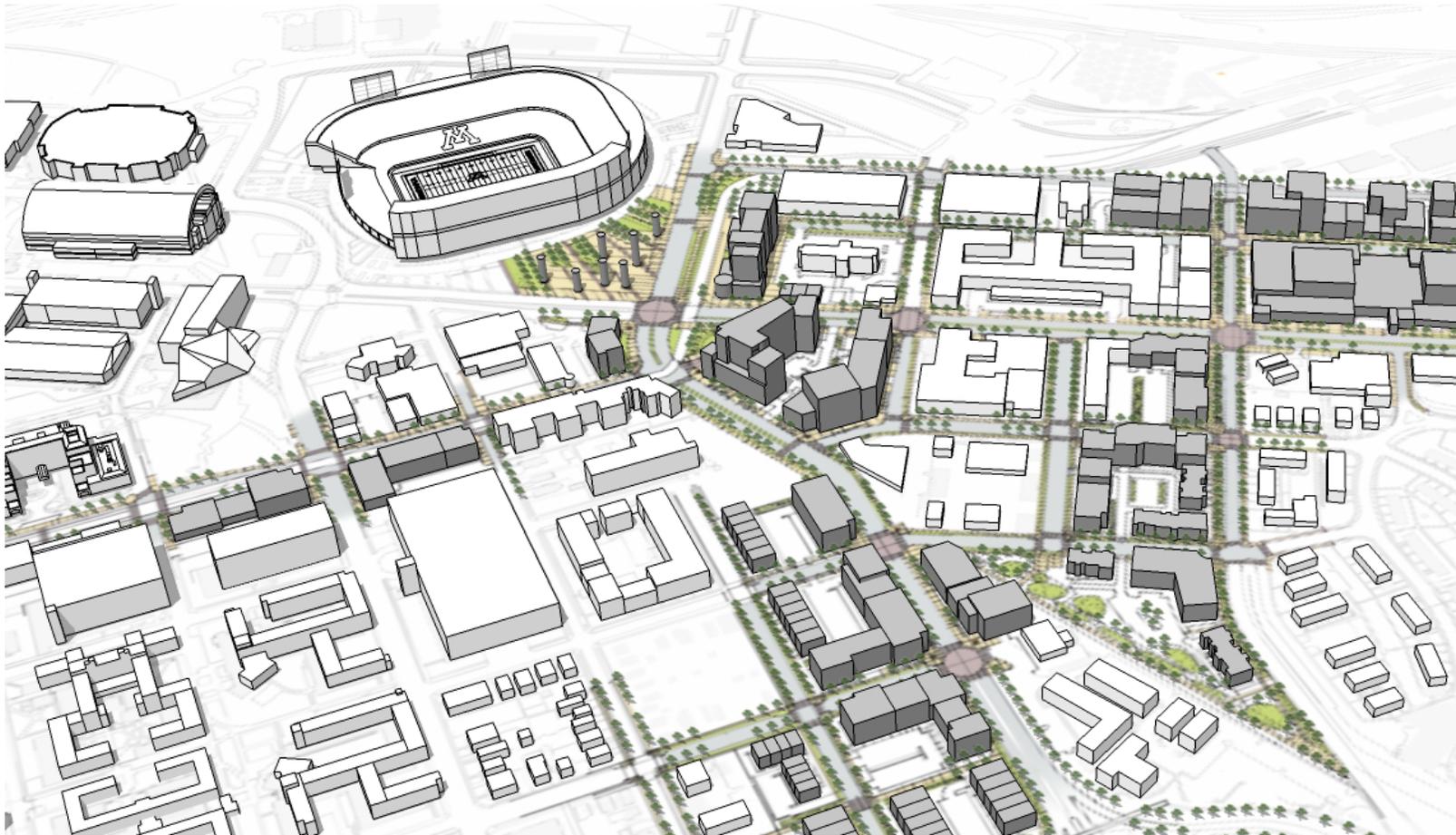


CITY OF MINNEAPOLIS

Stadium Village Station Area Market Study



Prepared for Hennepin County, City of Minneapolis, University of Minnesota
August 2011

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Executive Summary

STUDY PURPOSE AND BACKGROUND

Hennepin County (“County”), the City of Minneapolis (“City”), and the University of Minnesota (“University”) are collaborating on a joint planning study of the Central Corridor Light Rail Transit (LRT) Stadium Village station area. The joint planning effort will address a range of issues, including planning and development, parking, infrastructure, and public realm improvements.

As part of this larger planning effort, this report is a market and development feasibility analysis of the station area that provides stakeholders and other planning participants a forecast of market conditions when the transit line opens in 2014, and for 2020.

Understanding the market potential to develop or redevelop properties in the Stadium Village area will assist the County, City, and University to plan for anticipated growth, target specific development opportunities, and create a foundation for partnerships in the ongoing revitalization process.

LOCATION ANALYSIS

Being located at the heart of an economically diverse and growing metropolitan region, Stadium Village is well positioned to benefit from its proximity to major employment centers, such as downtown Minneapolis, downtown Saint Paul, and the Midway district, which is situated between the two central business districts. More importantly, though, Stadium Village is adjacent to the University of Minnesota campus, one of the nations largest. As a result, the area

supports a number of uses including a vibrant commercial district, housing, and ancillary commercial space supported by the University.

Because of Stadium Village’s close association with the University, it is highly recognized throughout the region. In particular, the University sports venues, which give the area its name, draw hundreds of thousands of visitors to the area who do not work or live nearby. This provides the district brand recognition not accorded to most small areas or neighborhoods. Moreover, the density of surrounding uses supports a high level of pedestrian activity that is only rarely achieved outside of the two downtowns. This unique quality of the neighborhood adds to its distinction and potential to support additional development. Therefore, with the addition of light rail transit to Stadium Village this will enhance the area’s already high pedestrian activity and its accessibility to other important destinations throughout the region, which will further increase its potential as a place of interest.

Although Stadium Village enjoys a premium location, it is not without disadvantages. As a dense, pedestrian-oriented area, it has a reputation, both real and perceived, for being difficult to access. This is primarily because the broader region, for better or worse, is largely dependent on using automobiles to access Stadium Village. To the degree that some potential visitors may not want to deal with this challenge, it limits the size of the market for certain uses, such as retail and office space.

Also, Stadium Village’s biggest asset is also its biggest barrier; the University of Minnesota. Much of the demand for housing and commercial space in Stadium Village is almost entirely driven by the University. Therefore, as long as the University continues to grow and expand there will be increasing demand for these supportive uses. However, the ability of the University to acquire adjacent lands

for its expansion also introduces uncertainty into the market place, especially with respect to the market's ability to accommodate and nurture these supportive uses. Longtime users in older properties are at risk of being forced out of Stadium Village altogether if their properties are redeveloped because they wouldn't be able to afford rents in new construction.

Another disadvantage of the Stadium Village area is its availability of land to accommodate growth. In the core activity areas, where pedestrian traffic is highest, especially along Washington Avenue between Harvard Street and Huron Boulevard, development pressure is strongest. It is these parts of Stadium Village, however, that have viable existing uses that greatly increase the cost of redevelopment. Moreover, these areas also have the historic legacy of smaller lots, which makes it much more complex to assemble land for redevelopment purposes.

It should be noted, though, that current land coverage policy for Stadium Village includes a minimum FAR of 1.0 and there is no minimum parking requirement for new non-residential development.

Although the core activity areas along Washington Avenue lack readily available parcels to accommodate growth, the areas closest to the station have more land available to accommodate growth. This is an overall strength for Stadium Village. However, the challenge will be in extending an inviting pedestrian realm into these areas that is linked with the historic core of the neighborhood and the University campus. The parking lots north of the stadium, which are part of the Bio-Medical Discovery District, will likely accommodate significant growth that will increase the market for supportive uses, but, again, the physical pattern of the development and the pedestrian linkages will be critical.

SOCIO-ECONOMIC ANALYSIS

Stantec analyzed the demographic and economic trends underlying market demand for different real estate uses in Stadium Village. The key result of the analysis is that Stadium Village has experienced exceptional growth over the last 20 years. The neighborhood has grown 55% by adding roughly 3,500 residents during this time. This is due largely to increased enrollment at the University of Minnesota and the development new student housing in Stadium Village. The growth in Stadium Village has been so strong that it has spilled into neighboring Prospect Park, which increased its population by 600 residents since 2000 after decades of small decreases.

Although the University of Minnesota does not forecast significant enrollment increases over the next 10 years, there appears to be a tremendous amount of pent up demand for newer, more modern forms of student housing. If this demand exceeds the already generous supply of new projects in the development pipeline, this will place greater growth pressures on Stadium Village and potentially increase the area's population significantly.

The demographic profile of Stadium Village has historically been defined by an overwhelming presence of students, who typically are age 18-24, single, rent their housing, and have very low incomes. Meanwhile, the remainder of the population continues to age, which in recent years has resulted in declining household size and increased incomes. However, this presents a challenge for Stadium Village retailers. On the one hand, young adults are becoming a larger and larger share of the market, and their rapidly shifting tastes and preferences are nearly impossible to stay on top of. On the other hand, there is the market represented by University employees, visitors, and residents of adjacent neighborhoods, who are aging rapidly and have vastly different retail needs than the growing student market. Finding a business model or retail niche

that caters to both groups will be difficult at best, but may create an area for innovation.

STAKEHOLDER INPUT

In order to augment statistical market data, Stantec conducted one-on-one interviews with a variety of stakeholders knowledgeable about Stadium Village to solicit their observations and perceptions of the market potential for new development. Although interviewees were very diverse, which included developers, residents, business owners, and real estate brokers, to name a few; there was some consensus that Stadium Village is becoming increasingly dominated by the growing student market. For now, that means there is very strong market pressure to develop student housing and find key locations for supportive retail. However, there was some uncertainty as to how long this market will continue to be strong before saturation.

Other key observations surrounded the challenge of finding adequate properties for redevelopment in Stadium Village since the area is dominated by many small parcels, which are difficult to assemble, and most businesses are very profitable and not likely to relocate. This has had the effect of pushing development pressure further east into adjacent neighborhoods where more land is available for redevelopment and parcels are larger and easier to assemble.

RETAIL MARKET

Stantec analyzed the supply of retail space at the regional and local level as well as the retail mix of businesses in Stadium Village. The key conclusion is that there is a significant opportunity to introduce more retail into Stadium Village. At a little over 100,000 square feet of aggregate space, the current amount and variety of retail offerings is not meeting demand from area residents, workers, and

visitors. Based on calculated spending power, the amount of additional retail that could be supported today is close to 50,000 square feet. Furthermore, given conservative growth figures, it could grow by another 20,000 to 30,000 square feet by 2020.

Assuming typical suburban land to building ratios of 4-to-1, which account for maximum on-site parking needs, the amount of calculated retail demand would translate to 6.5 to 7.3 acres needed for new development. However, with more urban parking standards and other strategies, such as shared parking or off-site parking, this ratio could be reduced to 2-to-1, which translates to 3.2 to 3.7 acres needed for redevelopment.

From a planning perspective, the high level of demand is a good problem to have. Retailers want to be in Stadium Village. The challenge is not in finding ways to grow this demand but will be in finding spatial solutions that accommodate retail demand without compromising the need to accommodate other land uses. However, just because there are enough people in Stadium Village to support additional retail does not mean that any and all retail development will be successful.

First of all, new retail will have to take into consideration strategic locations that maximize visibility and accessibility. And for Stadium Village, accessibility is more contingent on pedestrian accessibility than vehicular accessibility. This is no more evident than the example of retail space located further east along University Avenue that is several blocks away from the core of Stadium Village. These retail spaces have good visibility along University Avenue, but lack the accessibility to key concentrations of pedestrians. As a result, newer, more expensive retail space in these properties often remains vacant because the retailers who can justify the rents do not have

the accessibility enjoyed by properties further west and closer to the campus.

Secondly, modern retailing has diversified in recent years in such a way that many categories of goods can only be delivered by large-format retailers who require a substantial number of households in their trade areas (often far more than Stadium Village) in order to support their operations, which are dependent on economies of scale. The classic example of this is Target or Wal-Mart who are most profitable when their stores are as large as possible, which necessitates ever larger trade areas. Grocery stores also fall into this category in most formats.

Although Stadium Village has a substantial unmet demand for grocery store goods, the challenge is that a grocery store less than 20,000 square feet is hard to justify for many operators because their profit margins are so slim and they need to operate on volume instead of mark-up. This makes shopping at a grocery store more difficult to do without a car because of the need to haul large volumes of goods. With that being said, though, Stadium Village is somewhat unique within the Twin Cities in that car ownership is relatively low and residents, therefore, are challenged to go outside of the immediate area for groceries. In other words, the Stadium Village Trade Area is a highly captive trade area, which may entice some grocery retailers because they could potentially increase their profit margins in order to defray any costs associated with a lack of economies of scale. Again, this is the economic condition in which niche or destination grocery stores can thrive.

Because certain retailers will have trouble finding appropriate spaces in Stadium Village to accommodate their standard formats, it is likely that some of this pent-up demand will never be satisfied within Stadium Village. The result, though, is that retailers may consider

locations along the Central Corridor LRT proximate to Stadium Village that has the room to accommodate this demand. For example, it is possible that a retailer may consider 29th Avenue as a location because they could find a property that is large enough for their format, perhaps have on-site parking, which helps increase the size of their trade area, and take advantage of the LRT.

OFFICE AND INDUSTRIAL MARKET

The amount of calculated future demand for market-driven office space peaks at a little over 40,000 square feet through 2020. This does not include office development related to University of Minnesota expansion plans as their growth is not necessarily dependent on broader market conditions of real estate supply and demand.

Although 40,000 square feet may seem somewhat low, it takes into consideration several factors which limit demand for office space in Stadium Village. First, there currently is very little market-driven office space in Stadium Village, which suggests that market demand has never been particularly strong, especially given the centralized location of Stadium Village within the Metro Area.

Second, other uses in Stadium Village, such as housing and retail, easily outbid office uses because demand is much stronger. Third, the type and amount of office space needed among businesses is rapidly shifting because of technological changes that require less work space, such as telecommuting. Fourth, the area to the east of Stadium Village is a much stronger office market, and there is available space in those areas to accommodate future growth thus limiting the potential for Stadium Village to capture spill over growth.

Finally, many office users are dependent on customer access much like retailers. Therefore, perception of Stadium Village as difficult to

access limits demand to those most in need of being close to the University. Furthermore, once the LRT is operational, demand among office users most dependent on access to the University may diminish as well as some office users may be willing to opt for locations within two to three station stops versus a current need to be within one or two blocks.

Calculated future demand for industrial space is essentially non-existent. Even under a high growth scenario, only 2,500 square feet of demand for industrial space was calculated for Stadium Village south of the BNSF rail yards over the next 10 years, which is an amount of space that under typical market conditions would never be financially feasible.

The lack of calculated growth is largely due to metro-wide employment forecasts which suggest very weak industrial employment growth over the next 10 years. It is also related, though, to the challenge of being able to support only \$6.00 per square foot rents when other real estate uses can achieve much higher rents, such as student housing (\$24/sf), retail (\$15/sf), and office (\$12/sf). Furthermore, areas north of the BNSF rail yards in the Southeast Minneapolis Industrial district or SEMI and further east in St. Paul have a much larger supply of industrial space and are a better fit for industrial uses dependent on truck traffic. Of course, the Bio-Medical Discovery District may spin off the need for high-tech manufacturing that would prefer to be as close to the University as possible. However, modern high-tech manufacturing that does not depend on truck or rail access can often occur in buildings that function more as office buildings than traditional industrial buildings. Thus, the land use response to potentially accommodate these types of uses should recognize office impacts as well as industrial impacts.

HOUSING MARKET

Stantec did not perform new research regarding the housing market for this study because a previous housing study conducted on behalf of the University District Alliance was recently completed in February 2011. The University District Alliance study concluded that there is market demand for nearly 2,300 new housing units by 2020 for the neighborhoods surrounding the University of Minnesota, including Stadium Village. Housing demand was broken down into market segments that included market rate, affordable, owner-occupied, renter-occupied, and senior housing.

Although a specific breakdown for Stadium Village was not provided, a conservative estimate would indicate that there is demand for an average of about 75 units per year of new housing through 2020 in Stadium Village. If this amount of demand were to translate into actual development, typical densities of about 60 units per acre would require roughly 12.5 acres of land for development over the next 10 years, which would be very difficult to achieve given the current supply of land and the market condition of other real estate sectors.

Furthermore, the University District Alliance study did not directly address the demand for student housing in Stadium Village. This is important because, based on stakeholder interviews, it was learned that the strength of the current student housing market is so strong that it is outbidding all other housing types and even other real estate sectors in the competition for sites. This has prevented the potential to capitalize on market demand for other real estate uses in Stadium Village in the short term. Therefore, any development strategy aimed at uses other than student housing will require creative solutions. For example, key retail locations may need to be preserved and incentives created to encourage retail in these

locations to protect it from housing and/or to encourage developers to put housing on or above retail.

Introduction

SCOPE OF STUDY AND PROJECT BACKGROUND

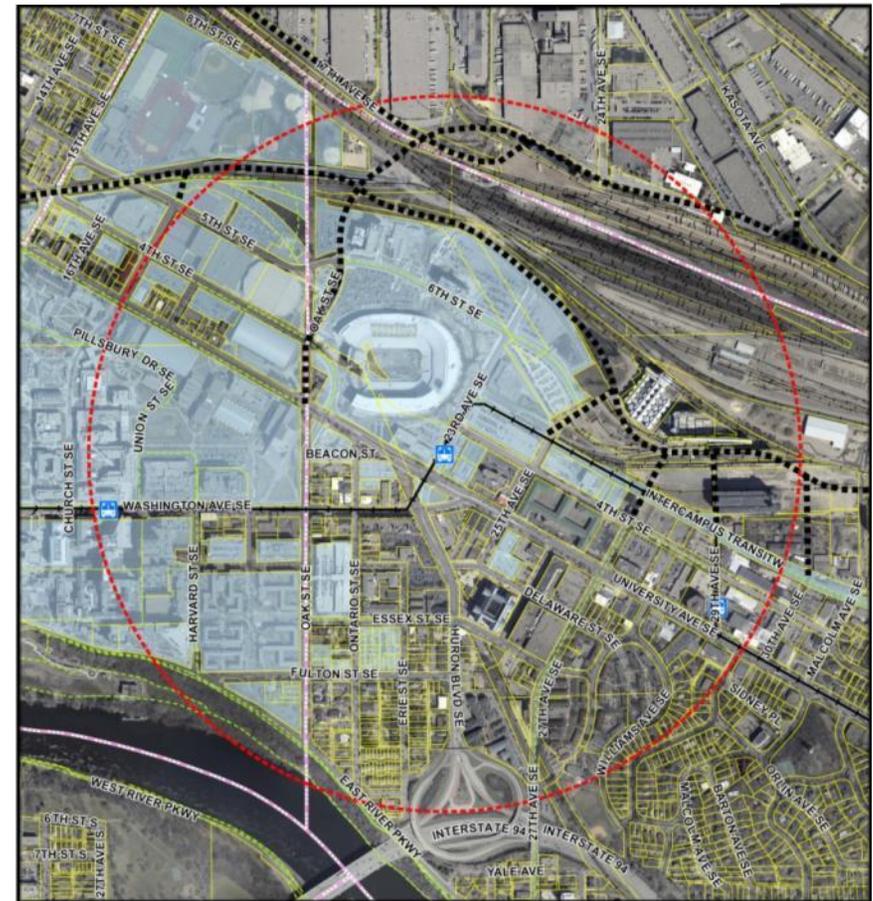
Hennepin County ("County"), the City of Minneapolis ("City"), and the University of Minnesota ("University") are collaborating on a joint planning study of the Central Corridor Light Rail Transit (LRT) Stadium Village station area. The joint planning effort will address a range of issues, including planning and development, parking, infrastructure, and public realm improvements.

As part of this larger planning effort, this report is a market and development feasibility analysis of the station area that provides stakeholders and other planning participants a forecast of market conditions when the transit line opens in 2014, and for 2030.

Stadium Village is one of 18 new stations that make up the Central Corridor LRT that will link the downtowns of Minneapolis and St. Paul. Ridership on the transit line is forecasted to be over 40,000 per weekday by 2030. This significant infrastructure improvement will profoundly impact development potential in the Stadium Village station area for years to come.

Understanding the market potential to develop or redevelop properties in the Stadium Village area will assist the County, City, and University to plan for anticipated growth, target specific development opportunities, and create a foundation for partnerships in the ongoing revitalization process.

Figure 1: Stadium Village Planning Area



Stadium Village Planning Area



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The approach of the market analysis will include an examination of the market forces that affect the types of development most often found in fully developed LRT station areas with a variety of uses, such as institutional, retail, office, and multifamily residential (Maxfield study). The market forces to be examined include demographic trends, economic trends, development trends, and the supply and condition of competitive developments.

ABOUT THE STUDY AREA

Typical station area analyses generally restrict the area of study to a ¼-mile or ½-mile radius around the station because that is the distance of a comfortable five- or ten-minute walk. In practice, though, people almost never conform to perfect geometric patterns because of any number of variables, such as physical and psychological barriers, physical ability, or personal preferences, to name a few.

In the case of Stadium Village there are several variables that affect what might be defined as the study area. First, there is an historic neighborhood core that is situated about 2½ blocks west of the station at Washington Avenue and Oak Street. Second, there are two significant physical barriers in the area: the TCF Stadium and the BNSF rail yards to the north. Third, there are two LRT stations located within a ½ mile of the Stadium Village station: the East Bank station to the west and the 29th Avenue station to the east. This study recognizes these effects and takes them into consideration when considering the development potential in and around the Stadium Village station.

It should also be noted that a great deal of data, both at the local and regional level, has been collected and analyzed as part of the study. Due to the challenges of collecting data for such a small area as Stadium Village, especially demographic data, a consistent

definition of the study area was nearly impossible. For example, between 1960 and 2010, the US Census altered the boundaries of the census tracts that cover Stadium Village three times. Nevertheless, we have tried to maintain consistency where possible and have noted data sources to illuminate where inconsistency may be unavoidable. Despite these limitations of the available data, the purpose of this study is to gauge how market forces may influence the volume and timing of future development in Stadium Village. And, like people, markets do not always adhere neatly to predetermined boundaries and have taken this into consideration as part of our analysis.

REPORT STRUCTURE

The report is organized according to the analytical steps needed to complete the study. The first section is an evaluation of the locational characteristics of Stadium Village. The second section is an analysis of the socio-economic conditions of Stadium Village and how those conditions may impact market demand for various real estate uses. The third section is a summary of stakeholder input regarding observations and perceptions of the future market for development in Stadium Village. This included both one-on-one interviews as well as a recap of a community survey conducted by the City of Minneapolis. Sections four, five, and six each address specific real estate sectors and the market demand associated with each and their impact on Stadium Village.

DATA RESOURCES

This study represents a compilation of data gathered from various sources, including the properties surveyed, local records, and interviews with stakeholders as well as secondary demographic material. Although Stantec judges these sources to be reliable, it is impossible to authenticate all data. The analyst does not guarantee the data and assumes no liability for any errors in fact, analysis, or

judgment. The secondary data used in this study are the most recent available at the time of the report preparation.

The objective of this report is to gather, analyze, and present as many market components as reasonably possible within the time constraints agreed upon. The conclusions contained in this report are based on the best judgments of the analysts; Stantec makes no guarantees or assurances that the projections or conclusions will be realized as stated. It is Stantec's function to provide our best effort in data aggregation, and to express opinions based on our evaluation.

Location Analysis

INTRODUCTION

Strong site factors are an essential foundation to real estate redevelopment success, and an understanding of these factors can help to optimize the long-term development vision for the Study Area. This section identifies the area's key regional, local, and site-specific characteristics as they relate to the development of profitable and enduring commercial and residential development.

The analysis begins with a macro study of the Twin Cities metropolitan area, followed by an assessment of the Study Area's location within that region.

REGIONAL CONTEXT

HISTORY

The Twin Cities began to grow in earnest during the 1850s and 1860s. Saint Paul was the head of navigation along the Mississippi River and developed as a river port for goods being transported to and from the south. Minneapolis grew industrially by harnessing the power of St. Anthony Falls just a few miles upriver from St. Paul.

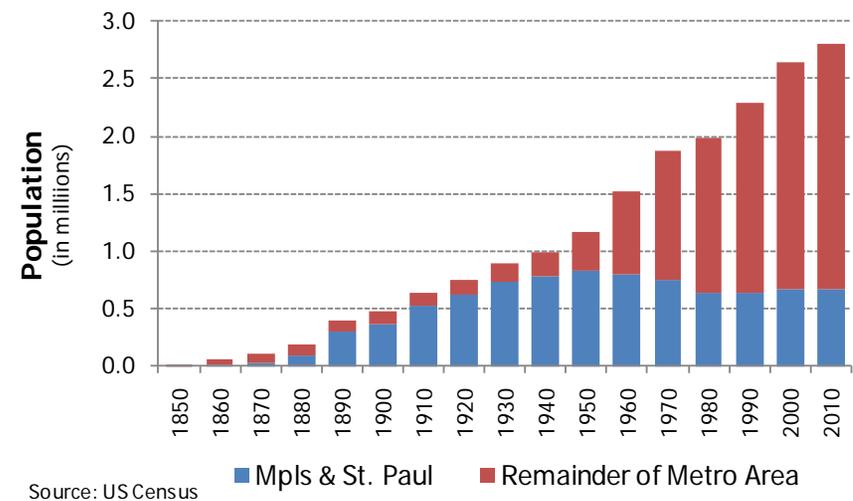
The industry of the early Twin Cities relied on Minnesota's natural resources. Forests supplied much of the lumber that helped build distant cities like Chicago and St. Louis. Agribusiness later assumed a greater importance economically, as virgin forests grew scarce after 1910. Aided by railroad development during the late 1800s, a grain and flour milling empire was established in the Twin Cities. Minneapolis became a destination point for grain distribution

throughout the Upper Midwest and was the largest flour-milling city in the world from the 1880s to the 1920s.

The presence of two transcontinental railroads and access to river commerce helped the Twin Cities become a major wholesale distribution center serving places as far away as the Pacific Northwest by the early 1900s. A substantial industrial base emerged as well, which helped fuel growth in the Twin Cities.

The central cities of Minneapolis and Saint Paul captured most of the region's growth until 1950 (Figure 1). After 1950, however, growth spilled outside of the two central cities, though each remains an important center of activity for the region.

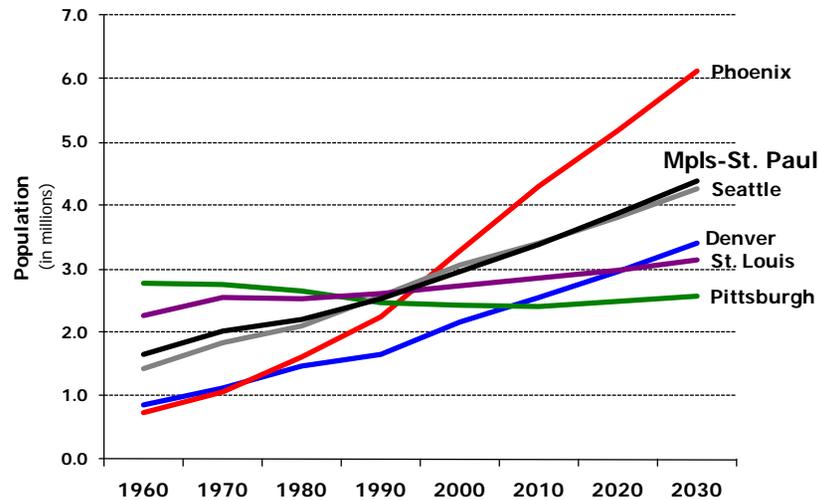
Figure 1: 7-County Twin Cities Metro Area Population 1850-2010



ECONOMY & BUSINESS CLIMATE

The Twin Cities Metropolitan Area is the economic and cultural center of the Upper Midwest. Its steady growth is attributable to a diverse economy, which has historically allowed it to avoid the boom and bust fluctuations of other metro areas (Figure 2). The economy that was once based on the State's natural resources has diversified and now has one of the best industrial mixes in the nation. The Twin Cities industrial base consistently ranks high in national surveys.

Figure 2: Metro Area Growth Comparisons 1960-2030



Sources: U.S. Census; Woods & Poole Economics

The Twin Cities ranked high nationally in 2011 among major metropolitan areas in the number of Fortune 500 firms. United Health Group, Target, Best Buy, and 3M are a few of the 19 Fortune 500 firms headquartered in the region (Table 1).

Table 1: Fortune 500 Companies Based in the Twin Cities

<u>Company</u>	<u>Rank</u>	<u>Company</u>	<u>Rank</u>
United Health Group	22	Xcel Energy	237
Target	33	Ameriprise Financial	246
Best Buy	47	C.H. Robinson	265
Supervalu	61	Thrivent Financial	318
3M	97	Mosaic	346
CHS	103	Ecolab	378
U.S. Bancorp	126	St. Jude Medical	436
Medtronic	158	Nash Finch	449
General Mills	166	Alliant Techsystems	472
Land O'Lakes	218		

Source: Fortune Magazine, 2011

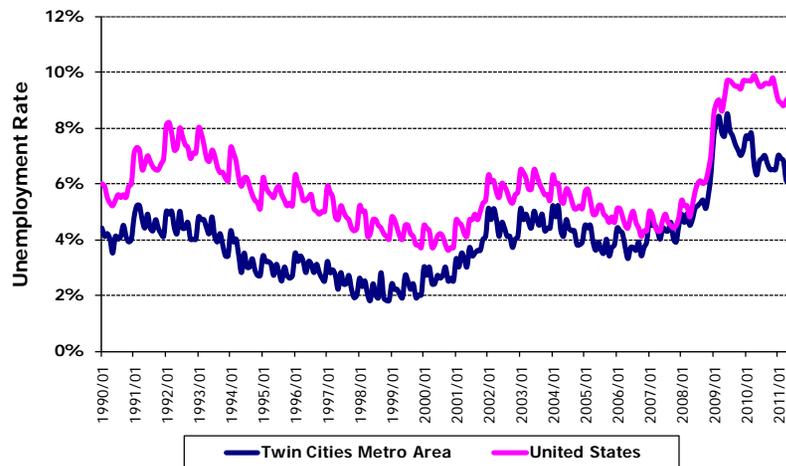
A number of nationally recognized financial companies are headquartered or have substantial operations in the region including Ameriprise, Securian (formerly Minnesota Life), ING North America, St. Paul Travelers, and Allianz of North America. Minneapolis is also home to the Ninth Federal Reserve District and one of the largest banks in the country, U.S. Bancorp.

Minnesota ranks sixth nationally in growth of high tech jobs since 1980, and over one third of the total work force is employed in "white collar" management or service jobs. Some of the Twin Cities largest high-tech companies include 3M, Cray Research, Ceridian, Alliant Techsystems, Unisys, and Seagate Technology.

Many medical companies such as St. Jude Medical, Medtronic, Guidant/Boston Scientific, SciMed Life Systems, and the University of Minnesota Hospital are developing numerous medical technologies and providing quality health care in the Twin Cities that is recognized throughout the United States.

This high degree economic diversification has kept the Twin Cities unemployment rate at relatively healthy levels. Since 1990, the unemployment rate in the Twin Cities has consistently averaged two to three percentage points below the national rate (Figure 3). Although the recent recession has pushed unemployment rates to their highest rate in 30 years, the Twin Cities region has experienced a sharp decline over the last 18 to 24 months, likely the result of its diverse economy in which strong, rebounding industry sectors have been able to counterbalance the effects of weaker sectors.

Figure 3: Regional and National Unemployment Rate 1990-2011



Source: MN Dept. of Employment and Economic Development, *Local Area Unemployment Statistics (LAUS)*

LOCAL CONTEXT

Stadium Village is located in southeast Minneapolis on the eastern edge of the University of Minnesota campus. Geographically, it is the center of the Twin Cities metropolitan region. The area derives its name from the old Memorial Stadium, the University’s football

stadium, which has been recently rebuilt in the neighborhood after a nearly 30-year absence and renamed TCF Stadium.

Figure 4: Regional Location of Stadium Village



LAND USE

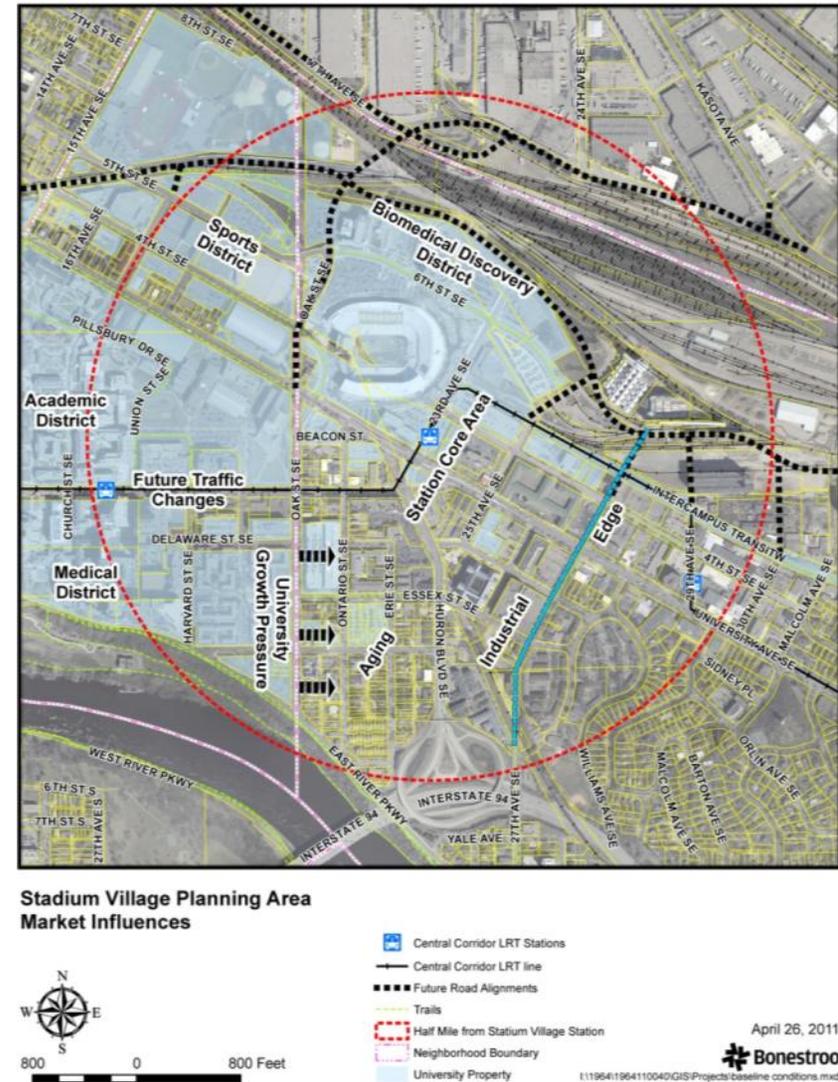
The Stadium Village area is a crossroads surrounded by a variety of disparate land uses, such as the University of Minnesota, the rail yards of the Southeast Minneapolis Industrial district (SEMI) to the north, and the Prospect Park residential neighborhood to the south and east.

INSTITUTIONAL

The University of Minnesota has a profound impact on Stadium Village. With nearly 20,000 employees in a dense, campus environment and several thousand students living in dormitories or similar multifamily housing, Stadium Village is one of the most dynamic, pedestrian-oriented neighborhoods in Minneapolis. Therefore, due to the density of employment and housing in the area, many of the retail businesses in Stadium Village are oriented to pedestrian traffic.

There are three campus districts adjacent to Stadium Village. North of Stadium Village is a sports district, and the largest and most prominent venue is TCF Stadium with a capacity of over 50,000. Other important sports venues in this area include Williams Area (14,000+ capacity) and the adjacent Sports Pavilion (5,700), Mariucci Arena (10,000), Ridder Arena (3,400), the aquatics center (2,500), the tennis center, and the field house. West of Stadium Village, but north of Washington Avenue, is the heart of the University's College of Science and Engineering. West of Stadium Village, but south of Washington Avenue, is the heart of the University's medical district, which includes the University Hospital and numerous health sciences programs, such as the medical school, nursing school, and school of dentistry.

Figure 5: Stadium Village Planning Area and Market Influences



RESIDENTIAL

The part of Prospect Park known as Motley is a small neighborhood of older, single-family residences and smaller multifamily buildings located south of Washington Avenue and west of Huron Boulevard. This area has experienced a great deal of change in recent decades as the University of Minnesota has slowly expanded its facilities and holdings east of Oak Street. Moreover, there have been several new, large student housing developments that have occurred in recent years, with several more either under construction or in pre-development.

The part of Prospect Park located east of 27th Avenue is not as directly impacted by change in Stadium Village, but nonetheless represents the closest concentration of non-student housing to the study area. This area includes the Glendale public housing development, which is immediately east of 27th Avenue, and a more historic district situated further east.

COMMERCIAL

The Stadium Village commercial district is centered primarily along Washington Avenue between Harvard Street and Huron Boulevard. The vast majority of businesses cater mostly to employees and students of the University. Commercial uses also extend eastward from Stadium Village along University Avenue. However, due to the lack of concentrated pedestrian activity, these commercial businesses have historically relied on automobile access with a wider trade area, often extending into Saint Paul.

There are two other commercial districts on the edge of the University that to some degree compete with Stadium Village businesses. These include Dinkytown, which is located north of the East Bank campus and centered on the intersection of 4th Street SE and 14th Avenue SE, and the West Bank intersections of Cedar-

Riverside and Seven Corners. These commercial areas, like Stadium Village, rely heavily on pedestrian activity generated by the University and nearby residences. Therefore, they have their own tightly defined trade areas that tend to not overlap with Stadium Village.

INDUSTRIAL

The industrial legacy of the area is still very present. The Burlington Northern Santa Fe Rail yard to the north of Stadium Village remains a significant barrier. North of this rail yard, land uses are still mostly industrial and have little connection to Stadium Village because of poor access. South of the rail yards, though, land uses have been transitioning away from industry. The Biomedical Discovery District is an emerging area that will include upwards of a million square feet of new research and laboratory space associated with the University of Minnesota. Further east of this area, closer to the 29th Avenue LRT station, old rail lines and grain elevators are planned to be converted into park space and additional hi-tech incubator areas that are intended to feed off of the University's future investments.

TRANSPORTATION

Washington and University Avenues are the main roadways that serve the area. Washington Avenue connects Stadium Village to the heart of the East Bank campus as well as the West Bank campus and downtown Minneapolis. Meanwhile, University Avenue connects Stadium Village to Saint Paul as well as Dinkytown and northeast Minneapolis.

During the late 1960s, Interstate 94 was completed with an interchange at Huron Boulevard a few blocks south of the area. This created another important roadway connection for Stadium Village as many visitors now access the neighborhood via the Interstate.

Below is 2005 MnDOT data (prior to the I-35W bridge collapse) that shows motor vehicle traffic volumes along important roadways in Stadium Village.

Table 2: Stadium Village Traffic Counts 2005 (most recent year with data not influenced by I-35 Bridge Collapse)

Location	AADT
Washington Avenue (west of Oak St)	17,700
Washington Avenue (east of Oak St)	14,200
University Avenue (west of Oak St)	16,200
University Avenue (east of Huron Blvd)	21,200
Huron Boulevard (south of Washington Ave)	19,800
Oak Street (south of Washington Ave)	6,300
Fulton Street (west of Huron Blvd)	6,400
AADT = Average Annual Daily Traffic	
Source: Minnesota Department of Transportation	

With completion of the Central Corridor LRT, Washington Avenue west of Harvard Street will become a pedestrian and transit mall closed to unauthorized vehicles. This will impact traffic patterns throughout Stadium Village. According to the Central Corridor LRT environmental impact statement (EIS), many intersections outside of the immediate corridor will experience increased congestion and lower levels of service (LOS) as traffic patterns in the area are altered.

There is a significant roadway project planned for the area north of Stadium Village that will greatly influence vehicular movement in the area. Granary Road will be an east-west connector that will help mitigate the reduced capability of trucks to use University Avenue once the Central Corridor LRT is complete. Early phases of this roadway will likely be completed within the next five years. However,

long range plans are for the roadway to provide connections to Highway 280 to the east and Interstate 35W to the west.

Mass transit and bicycles are important transportation alternatives in Stadium Village. The area is currently served by 13 different Metro Transit bus lines, including everything from high-frequency local service (route 16) to numerous commuter routes serving outlying areas. In addition, the University operates a free shuttle service that links the East and West Bank campuses to the Saint Paul campus.

In 2014, the Central Corridor LRT will open along Washington and University Avenues with a station stop in Stadium Village at 23rd Avenue SE just north of University Avenue. The Central Corridor LRT will link the downtowns of Minneapolis and Saint Paul. Daily weekday ridership is forecast to be 40,000 by 2030. In addition to the increased usage of transit, the Central Corridor LRT will also result in the closure of Washington Avenue to non-authorized motor vehicles between Pleasant Street and Walnut Street. This will impact the accessibility to some businesses located along Washington Avenue and it will divert traffic onto streets not accustomed to higher traffic volumes.

According to bicycle counts prepared by the City of Minneapolis in 2010, the intersection of Washington Avenue and Oak Street has nearly 1,200 cyclists in a typical day. These bicycle counts are high and represent the impact the University has on visitors to use alternative forms of transportation.

LOCATION ANALYSIS CONCLUSION

Being located at the heart of an economically diverse and growing metropolitan region, Stadium Village is well positioned to benefit from its proximity to major employment centers, such as downtown Minneapolis, downtown Saint Paul, and the Midway district, which is situated between the two central business districts. More importantly, though, Stadium Village is adjacent to the University of

Minnesota campus, one of the nations largest. As a result, the area supports a number of uses including a vibrant commercial district, housing, and ancillary commercial space supported by the University.

Because of Stadium Village's close association with the University, it is highly recognized throughout the region. In particular, the University sports venues, which give the area its name, draw hundreds of thousands of visitors to the area who do not work or live nearby. This provides the district brand recognition not accorded to most small areas or neighborhoods. Moreover, the density of surrounding uses supports a high level of pedestrian activity that is only rarely achieved outside of the two downtowns. This unique quality of the neighborhood adds to its distinction and potential to support additional development. Therefore, with the addition of light rail transit to Stadium Village this will enhance the area's already high pedestrian activity and its accessibility to other important destinations throughout the region, which will further increase its potential as a place of interest.

Although Stadium Village enjoys a premium location, it is not without disadvantages. As a dense, pedestrian-oriented area, it has a reputation, both real and perceived, for being difficult to access. This is primarily because the broader region, for better or worse, is largely dependent on using automobiles to access Stadium Village. To the degree that some potential visitors may not want to deal with this challenge, it limits the size of the market for certain uses, such as retail and office space.

Also, Stadium Village's biggest asset is also its biggest barrier; the University of Minnesota. Much of the demand for housing and commercial space in Stadium Village is almost entirely driven by the University. Therefore, as long as the University continues to grow and expand there will be increasing demand for these supportive

uses. However, the ability of the University to acquire adjacent lands for its expansion also introduces uncertainty into the market place, especially with respect to the market's ability to accommodate and nurture these supportive uses. Longtime users in older properties are at risk of being forced out of Stadium Village altogether if their properties are redeveloped because they wouldn't be able to afford rents in new construction.

Another disadvantage of the Stadium Village area is its availability of land to accommodate growth. In the core activity areas, where pedestrian traffic is highest, especially along Washington Avenue between Harvard Street and Huron Boulevard, development pressure is strongest. It is these parts of Stadium Village, however, that have viable existing uses that greatly increase the cost of redevelopment. Moreover, these areas also have the historic legacy of smaller lots, which makes it much more complex to assemble land for redevelopment purposes.

It should be noted, though, that current land coverage policy for Stadium Village includes a minimum FAR of 1.0 and there is no minimum parking requirement for new non-residential development.

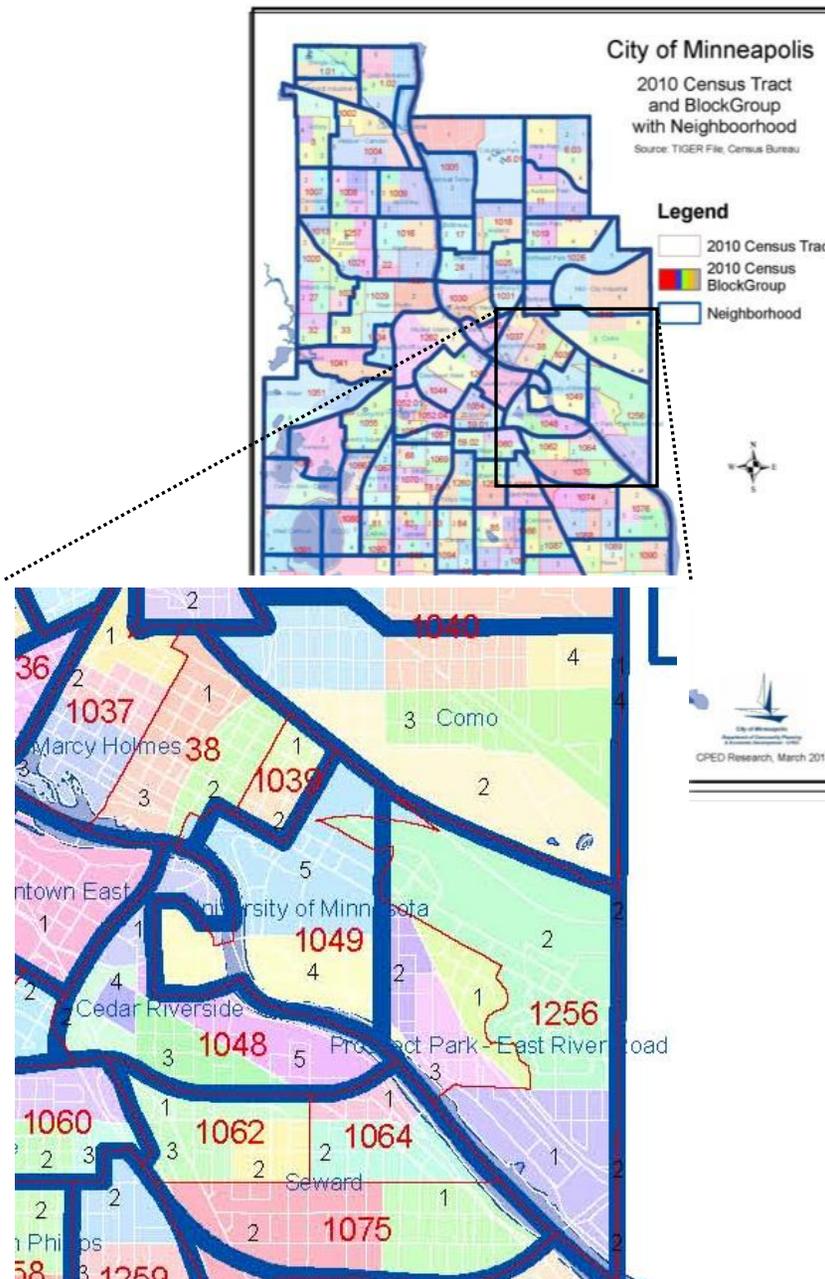
Although the core activity areas along Washington Avenue lack readily available parcels to accommodate growth, the areas closest to the station have more land available to accommodate growth. This is an overall strength for Stadium Village. However, the challenge will be in extending an inviting pedestrian realm into these areas that is linked with the historic core of the neighborhood and the University campus. The parking lots north of the stadium, which are part of the Bio-Medical Discovery District, will likely accommodate significant growth that will increase the market for supportive uses, but, again, the physical pattern of the development and the pedestrian linkages will be critical.

Socio-Economic Analysis

INTRODUCTION

This section examines the demographic and economic trends of Stadium Village. Changing demographic and economic trends can signal ways in which the market will likely respond to future demand for housing, retail, and services.

A note about the data: much of the data presented in this section comes from the US Census and Census "tracts" are the most common unit of geography that define small areas that are roughly equivalent to neighborhoods, such as Stadium Village (see 2010 tract boundaries denoted in red on the map to the right). Tract boundaries, however, do not always correspond directly with neighborhood definitions. The heavy blue line on the map denotes the official boundaries of Minneapolis neighborhoods, and it demonstrates how substantial portions of neighborhoods can cross tract boundaries and vice versa. Furthermore, the Stadium Village study area does not necessarily adhere to either of these definitions. Therefore, where appropriate we have tried to use data that most accurately demonstrates key demographic and/or economic conditions. To help minimize confusion, though, we have noted the source of the data and the geographic boundary it pertains to.



POPULATION TRENDS

Figures 6 and 7 present the population growth trends of Census Tracts 1049 and 1256, which generally correspond to the Stadium Village and Prospect Park neighborhoods. The population of Tract 1049 remained fairly stable at 6,000 people between 1960 and 1990. Since 1990, though, the tract has added over 3,500 residents, which is a growth of over 55%. This far surpasses the growth rates of Minneapolis and the 7-County metro area during this time and is indicative of expansion at the University of Minnesota and its changing policies emphasizing more on- or near-campus student housing.

Tract 1256, meanwhile, declined from a population of about 3,300 in 1960 to 2,300 in 2000. This is not surprising given that the Prospect Park neighborhood is less impacted than Stadium Village by the demand among University students for housing because of its greater distance to the campus and more prevalent supply of owner-occupied, single family homes. Therefore, its decline in population since 1960 had more to do with larger demographic trends impacting central cities, namely decreasing household size due to an aging population. More recently, though, the growth pressures that have affected Stadium Village have begun to impact Prospect Park as well. Since 2000, tract 1256 has added nearly 600 residents, which is a growth rate of nearly 25%; a rate that far exceeds that of Minneapolis and the metro area.

Figure 6: Stadium Village and Prospect Park Population 1960-2010

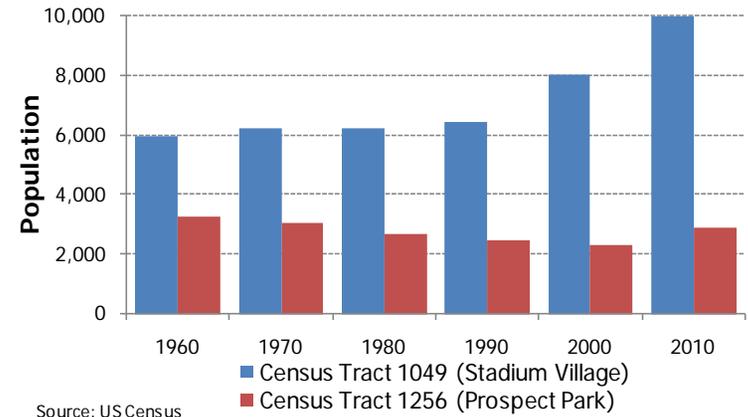
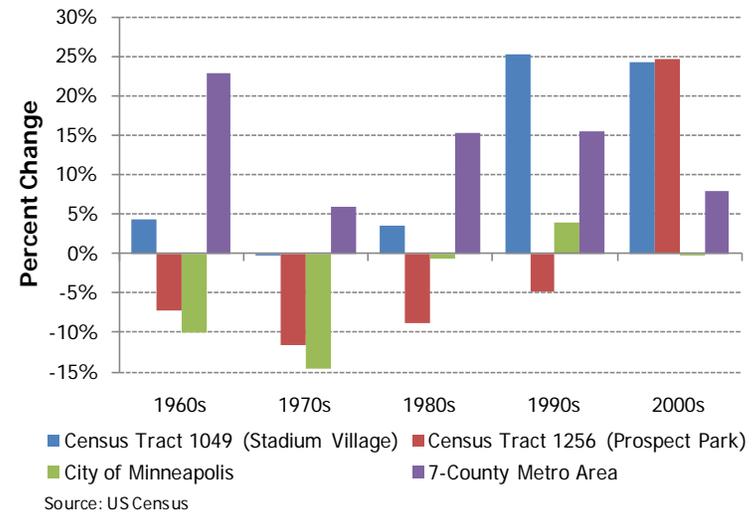


Figure 7: Population Growth Rates, Stadium Village, Prospect Park, Minneapolis, and Metro Area 1960-2010



POPULATION FORECASTS

Population growth will be a key factor in determining how much future development can be supported in the Stadium Village area. Population forecasts are based on recent growth patterns in which the trend line is modified to take into consideration anticipated changes in variables such as overall economic activity, availability of land, cultural shifts, just to name a few.

During the 2000s, Stadium Village and Prospect Park each grew by about 25% for a total of roughly 2,500 persons. Much of this population growth can be attributed to a dozen new residential developments with a combined total of over 950 units¹.

The Metropolitan Council and a recent study commissioned by the University District Alliance have forecasted population growth for areas that include Stadium Village. These forecasts are summarized in Table 3. It should be noted, though, that each forecast refers to a slightly different geographic area, which can lead to discrepancies. Stantec has reviewed the forecasts and blended them into a low, medium, and high growth rate we believe to be most appropriate for the Stadium Village station area (Table 4).

Table 3: Previous Population Forecasts of Stadium Village Area

Fore-caster	Study/Purpose	Forecast Year	Geography	2000-2010		2010-2020	
				No. Change	Pct. Change	No. Change	Pct. Change
Met Council	Traffic Analysis Zones (TAZ)	2009	East Bank of U of M and Prospect Park/ East River Road neighborhoods	2,444	23.4%	621	4.8%
Maxfield Research	Housing Market Analysis for the University District	2011	Prospect Park, including Stadium Village	1,894	28.5%	1,720	21.0%

Table 4: Population Forecasts 2010-2020

Geography	2010-2020 No. Change			2010-2020 Pct. Change		
	Low	Medium	High	Low	Medium	High
Stadium Village	750	1,250	1,750	7.5%	12.5%	17.5%
Prospect Park	250	500	750	8.6%	17.3%	25.9%
Total	1,000	1,750	2,500	7.8%	13.6%	19.4%

Stadium Village = Census Tract 1049

Prospect Park = Census Tract 1256

Source: Bonestroo

¹ City of Minneapolis Planning, East Sector Development Projects Since 2000

UNIVERSITY OF MINNESOTA ENROLLMENT

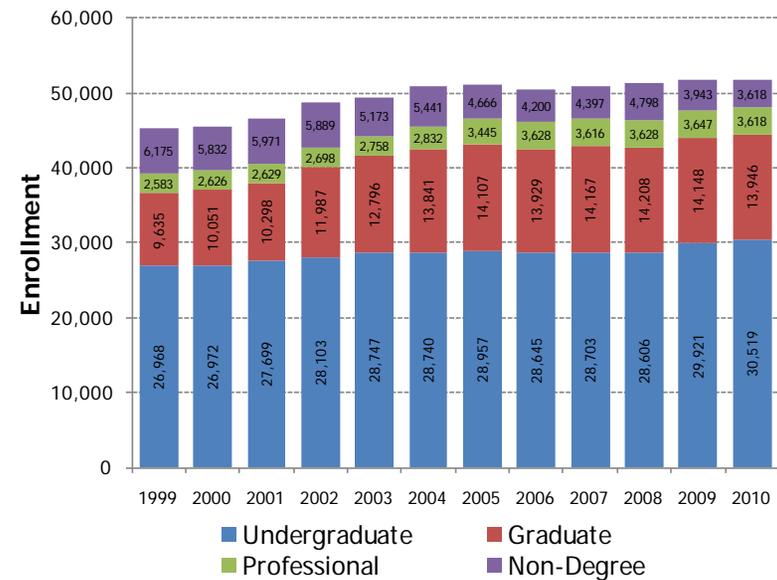
Increasing population in the Stadium Village and Prospect Park neighborhoods can be somewhat explained by recent increases in enrollment at the University of Minnesota (Figure 8). In 1999, total student enrollment at the University was just over 45,000. By 2005, enrollment increased nearly 6,000 to over 51,000 and has since remained stable. Based on the University's 2009 master plan, enrollment is forecasted to remain stable over the next ten years.

Much of the increase in the past decade has been captured among undergraduate, graduate, and professional programs. Meanwhile, non-degree programs have seen enrollment decline nearly 50%. This is important because it signals a shift in University priorities toward more emphasis on raising the school's academic profile and reputation. The result has been higher standards for acceptance, which often means a student body geared more toward a traditional collegiate experience defined by living on or near campus.

Another important aspect of enrollment trends is the gender breakdown of students. In 1970, there were 70 women for every 100 men that were enrolled in degree granting institutions in the United States². By 2007, that ratio had flipped to 132 women for every 100 men. This has important impacts on the type of housing demanded and the supportive retail uses in and near campuses. Although this trend has not been as dramatic at the University of Minnesota, it is still an important component of how the University will impact the land use needs in and around Stadium Village. Figure 9 shows how women have enrolled in greater numbers through most the past decade. However, the last two years of data suggest that perhaps this trend may be reversing itself.

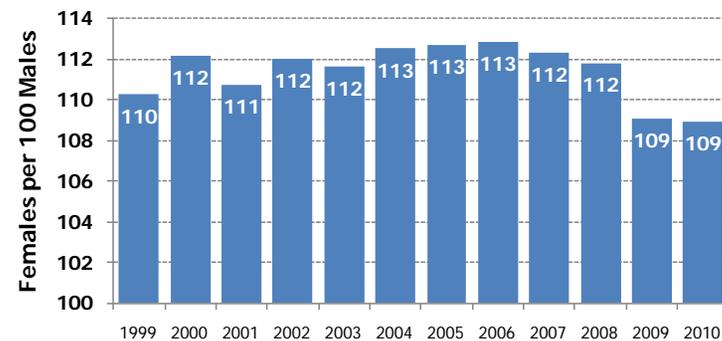
² SOURCE: U.S. Department of Education, National Center for Education Statistics. (2009). Digest of Education Statistics, 2008 (NCES 2009-020), Table 188.

Figure 8: University of Minnesota, Twin Cities Enrollment Trends 1999-2010



Source: University of Minnesota, Office of Institutional Research

Figure 9: U of M Enrollment by Gender



Source: University of Minnesota, Office of Institutional Research

POPULATION AGE

Although the University helps keep the age profile of Stadium Village (Census Tract 1049) young, the median age of Prospect Park (Census Tract 1256) has not only been increasing rapidly since 1970 but exceeds that of the City, the metro area, and the nation.

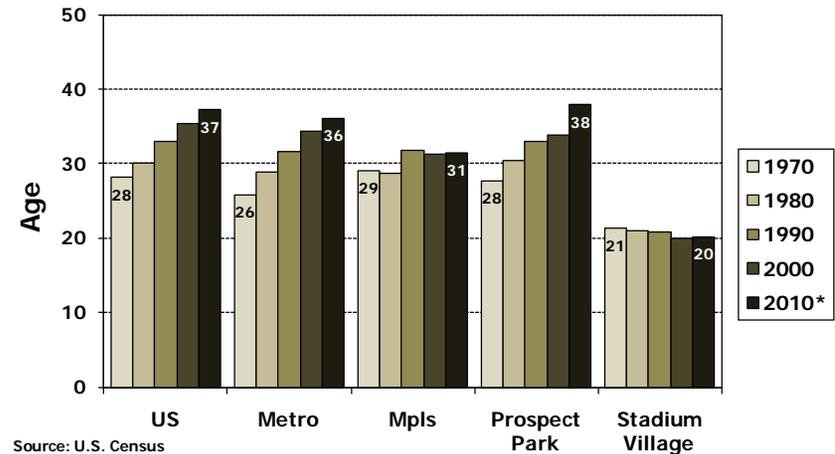
The age profile of the population has important ramifications on the market for new real estate development. Younger persons have significantly different demands than older persons when it comes to housing, retail, recreation, health care, and institutional uses. The challenge, however, is that Stadium Village has a very young profile, and will likely continue to do so given the influence of the University, yet neighboring communities, such as Prospect Park, are rapidly aging. Therefore, the kinds of goods and services demanded by residents of each neighborhood no longer have same kind of overlap it may have had 40 years ago.

HOUSEHOLD SIZE

Household size has declined sharply since 1970, especially in Prospect Park. Stadium Village, however, has actually experienced an increase in household size since 2000. This is presumably the result of an increase in apartment-style units being built for students as opposed to the traditional dormitory-style of housing.

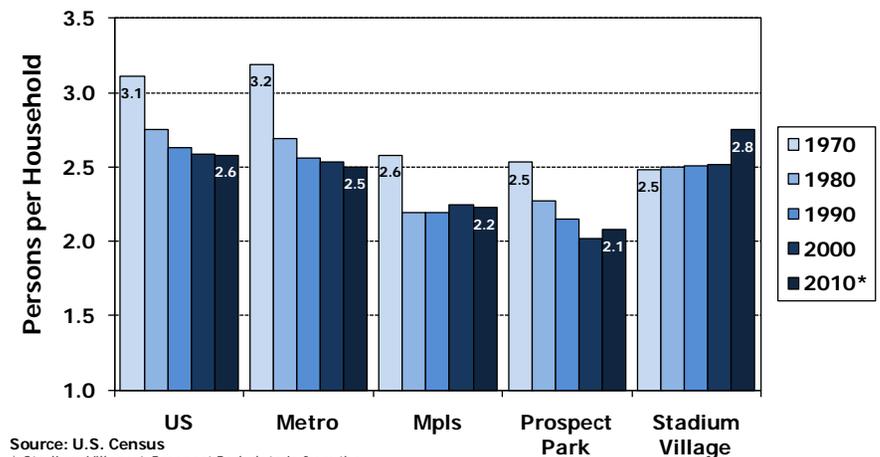
Changes in household size can impact real estate markets in a variety of ways. For example, fewer individuals in a household decrease the need for household goods and personal services, which can greatly impact certain segments of the retail market. Conversely, increasing household size results in greater population density and more demand for retail goods and services within the same geographic trade area.

Figure 10: Median Age



Source: U.S. Census
 * Stadium Village & Prospect Park data is from the 2005-2009 US Census American Community Survey

Figure 11: Household Size



Source: U.S. Census
 * Stadium Village & Prospect Park data is from the 2005-2009 US Census American Community Survey

HOUSEHOLD TYPE

Household types have dramatically changed since 1970. In the last 40 years, as the population has aged, the percentage of households defined as married couples with children has significantly decreased (Figure 12) while the percentage of single-parent families and single-person households has increased. No surprisingly, Stadium Village has historically not been a prime area for traditional, “nuclear” families. It is noteworthy, however, that such households are currently almost non-existent.

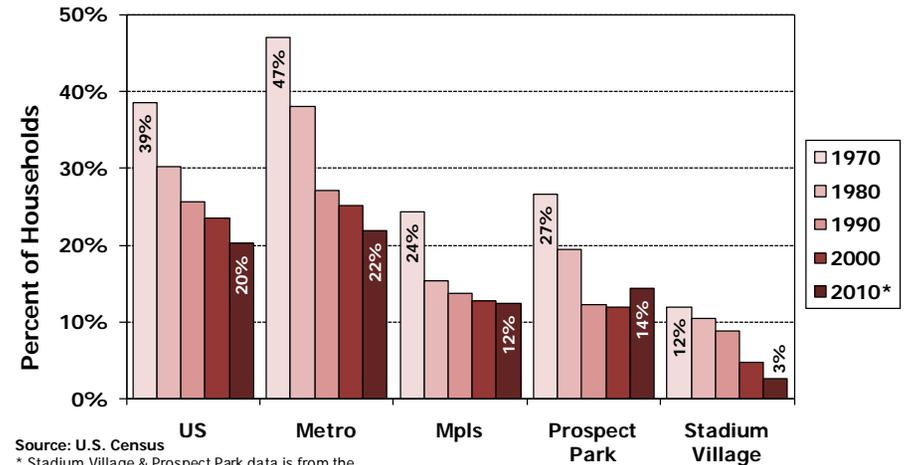
Changing household types influence real estate by affecting the types of retail demanded by consumers. For example, discount merchandisers, such as Target and Wal-Mart, no longer can rely primarily on a format designed for busy, young families. Instead, retailers will need to know the unique characteristics of their trade area and design their stores and services around those characteristics.

HOMEOWNERSHIP

Homeownership in Stadium Village has historically been very low with rates at or below 10%. Prospect Park, after years of having a homeownership rate similar to Minneapolis, experienced a sharp increase from 2000 to 2010 and is now over 60%.

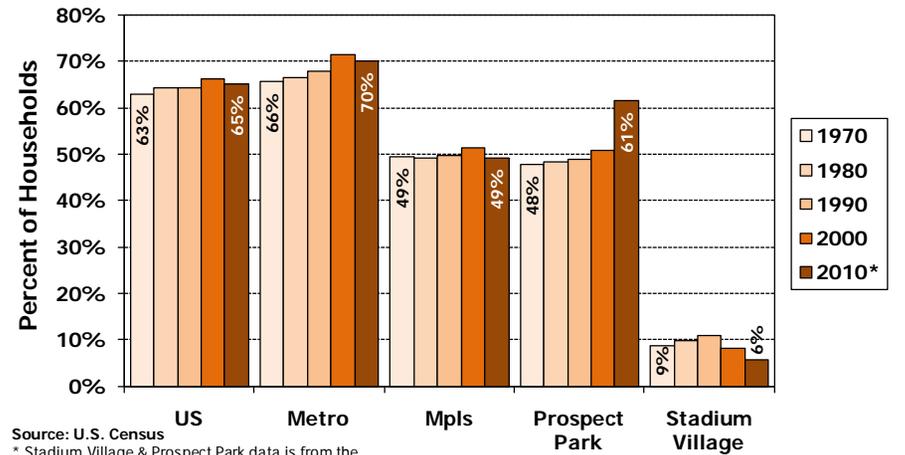
Traditionally, low homeownership is indicative of a more transient population that lives in the neighborhood for short periods of time, and the Stadium Village neighborhood fits this description given the influence of the University. However, structural change in the for-sale housing market due to the recent bust is making homeownership less attractive. This may result in more long-term or “lifestyle” renters who choose to not own their housing, though they may have the means to do so.

Figure 12: Married Couple Families with Children



Source: U.S. Census
 * Stadium Village & Prospect Park data is from the 2005-2009 US Census American Community Survey

Figure 13: Homeownership Rate



Source: U.S. Census
 * Stadium Village & Prospect Park data is from the 2005-2009 US Census American Community Survey

INCOME

Stadium Village has a very low per capita income (Figure 14), which is not surprising given a young, mostly student population. Furthermore, the per capita income in Stadium Village has been declining relative to the national per capita income. This is likely a result of the fact that the student population of Stadium Village has increased substantially since 1990. In contrast, Prospect Park has a per capita income that is significantly higher than Minneapolis, the metro area, and the nation. Moreover, the difference has increased substantially since 1990.

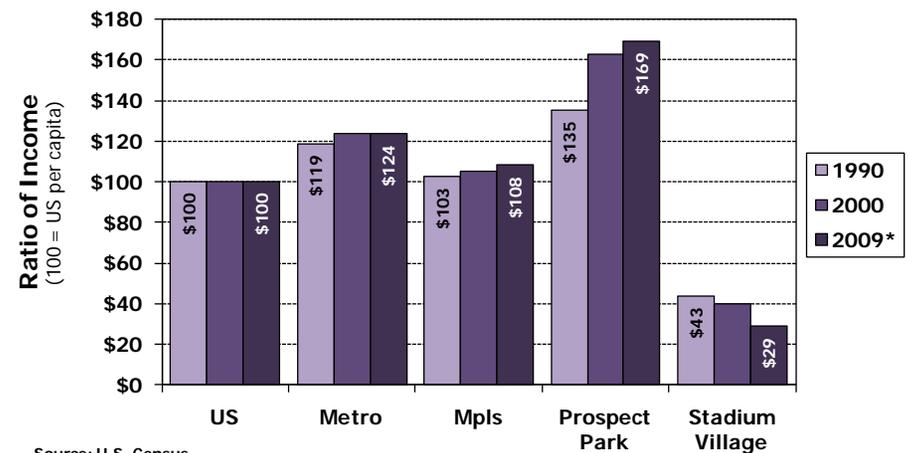
Income is important because it directly relates to the spending power of area residents and their ability to support retail. Although the per capita income of Stadium Village is very low, it should be noted that many students receive financial support from families to help pay for living expenses.

VEHICLE OWNERSHIP

The pedestrian nature of Stadium Village is exemplified by Figure 15, which shows the percentage of households in 2000 that do not have access to a vehicle. Nearly 25% of all Stadium Village households did not have a vehicle. This is well above the Minneapolis rate, more than twice the national rate, almost three times the metro area rate, and approaching four times the rate of Prospect Park. Furthermore, the data only pertains to households, which does not include the students living in dormitories on the University campus. If data were available that covered this population as well, the rate would be even higher.

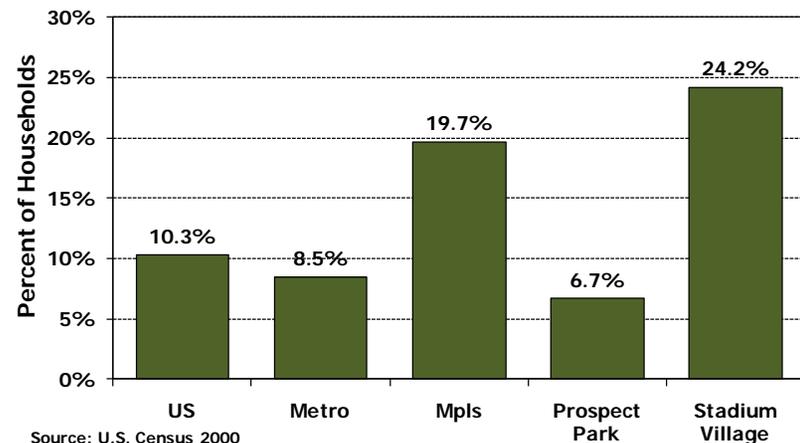
The lack of access to vehicles underscores how many Stadium Village residents are dependent on purchasing goods and services within walking distance or a short transit ride of their homes.

Figure 14: Ratio of Per Capita Incomes (\$100 = US per capita Income)



Source: U.S. Census
* 2009 data is from the 2005-2009 US Census American Community Survey

Figure 15: Households without Vehicles 2000



Source: U.S. Census 2000

SOCIO-ECONOMIC CONCLUSION

Stadium Village has experienced exceptional growth over the last 20 years. The neighborhood has grown 55% adding roughly 3,500 residents during this time. This is due largely to increased enrollment at the University of Minnesota and the development new student housing in Stadium Village. The growth in Stadium Village has been so strong that it has spilled into neighboring Prospect Park, which increased its population by 600 residents since 2000 after decades of small decreases.

Although the University of Minnesota does not forecast significant enrollment increases over the next 10 years, there appears to be a tremendous amount of pent up demand for newer, more modern forms of student housing. If this demand exceeds the already generous supply of new projects in the development pipeline, this will place greater growth pressures on Stadium Village and potentially increase the area's population significantly.

The demographic profile of Stadium Village has historically been defined by an overwhelming presence of students, who typically are age 18-24, single, rent their housing, and have very low incomes. Meanwhile, the remainder of the population continues to age, which in recent years has resulted in declining household size and increased incomes. However, this presents a challenge for Stadium Village retailers. On the one hand, young adults are becoming a larger and larger share of the market, and their rapidly shifting tastes and preferences are nearly impossible to stay on top of. On the other hand, there are University employees, visitors, and residents of adjacent neighborhoods, who are aging rapidly and have vastly different retail needs than the growing student market. Finding a business model or retail niche that caters to both groups will be difficult at best, but may create an area for innovation.

Stakeholder Input

ONE-ON-ONE INTERVIEWS

Stantec conducted one-on-one interviews with stakeholders to solicit their perceptions of Stadium Village regarding its potential to support additional development. The interviews were qualitative not quantitative and were intended to provide anecdotal and contextual information in support of the analysis.

The stakeholders were selected to represent a cross section of interests and included residents, students, business owners, property owners, University officials, developers, and real estate brokers. The following is a summary of the key observations made about the current and future conditions of Stadium Village.

NEIGHBORHOOD CHARACTER

- There has been a pronounced shift among Stadium Village businesses to focus more and more on students in recent years.
- The University of Minnesota continues to expand into Stadium Village. South of Washington Avenue, the expansion has been focused on medical facilities and has often encroached into residential areas. North of Washington Avenue, the expansion has been into former rail yards creating significant space for sports venues, parking facilities, and the Bio-medical Discovery District.
- The core of the Prospect Park neighborhood, which lies east of 27th Avenue, is not well connected to Stadium Village and, therefore, is more oriented to the 29th Avenue station area.

MARKET ACTIVITY

- Student housing is by far the strongest real estate sector, and it is currently outbidding all other real estate sectors, especially senior housing, which was the focus of a recent housing study.
- Developers prefer to build student housing as close to the University campus as possible because that is what students demand. However, the strength of the student housing market is strong enough that sites further away from the campus are being considered for student housing as well.
- Developer interest in being as close as possible to the LRT station is not yet evident. This is partly due to the fact that developers prefer student housing sites as close to the campus as possible.
- Stadium Village lacks larger sites that are easier to assemble and redevelop at a scale that is cost effective for most developers. Therefore, those who want to develop in Stadium Village have to expend substantial time and money purchasing multiple parcels, which adds to the overall development costs. This is a primary reason why student housing is outbidding most other real estate uses because the rents that are currently achievable for student housing can, at times, make the risks associated with complex land assembly worthwhile.
- No one knows for sure how long the student housing market will remain dominant. Some speculate that the unmet demand is very deep because the University has very little on- or near-campus housing relative to other Big Ten schools. Others consider changing tastes and preferences among students to be a big source of the current demand, which requires massive amounts of replacement of the current housing stock. Despite the perceived depth of the market, some interviewees noted that rapid expansion of supply has slowed down absorption of the newest buildings, suggesting that certain niches of the student

housing market may be showing signs of reaching temporary saturation.

- Stadium Village is considered a very attractive location for student housing or even other types of housing once the student housing market becomes saturated. However, it would greatly benefit from a better mix of retail stores and neighborhood amenities. Currently, there is a lack of certain types of stores. If a broader mix of stores could locate in Stadium Village, it would have the potential to substantially increase interest in the neighborhood well beyond its current state.
- Office space located near the campus is difficult to fill unless it is a University-related business or enterprise. This is because other office users not necessarily tied to the University perceive commercial areas adjacent to the University, like Stadium Village, to have poor access because of a challenging parking situation. Most office users, especially those not tied to the University, prefer locations with easy access to highways, plentiful parking for employees, or a high-status location, such as a downtown skyscraper or a suburban campus rich with amenities. As a result, the market for office space among non-University related businesses increases as one moves further east along University Avenue, especially in the vicinity of Highway 280.
- Industrial users dependent on truck traffic are leaving the areas near Stadium Village and north of University Avenue. This is because truck accessibility along University Avenue is very difficult during construction and will remain compromised once the LRT is operational.

STUDENT TRENDS AND PREFERENCES

- Because of the lack of certain retail goods and services, many students travel outside of Stadium Village for home furnishings, apparel, and groceries. The most commonly mentioned retail district for these sorts of goods is the Quarry in Northeast

Minneapolis, which has a Target, Rainbow Foods, and home Depot. More competitive retail districts with Stadium Village, such as Dinkytown, often lack these types of retail stores as well.

- Most University students grew up living in a house with their own bedroom. This has fueled the demand for newer student housing with more private bedrooms.
- Parents play a very important role in student's lives and must be marketed to as much as the students themselves when it comes to choosing a college and where to live.
- The University has raised its academic standards for entry in recent years. This has resulted in more students geared toward a traditional college experience marked by living on or near-campus and completing a degree program within four years.

UNIVERSITY PLANS

- The University of Minnesota has long range plans to expand. However, the current condition of the economy and the State's fiscal situation has tabled any immediate expansion projects indefinitely. Moreover, given the level of financial uncertainty, it is rather unclear when even planned projects will resume.
- The University of Minnesota Hospital and Clinic would love to expand their facilities, especially to the areas east of Oak Street and north of Fulton Street, since they are bordering on overcrowding. Like the larger University community, though, the financial situation has tabled all immediate and long range plans despite the strong level of need.

COMMUNITY SURVEY

Concurrent with the market analysis, the City of Minneapolis conducted a survey of stakeholders related to the larger Stadium Village station area planning process. The surveys were administered on-line during spring 2011 as well as part of two open houses held on April 27, 2011 and May 3, 2011. The survey included a number of questions related to perceptions of Stadium Village and desired changes for the neighborhoods. Although the survey covered a wide range of topics, certain findings illuminated the condition and perception of the market and how it affects Stadium Village. Below is a brief summary of key findings from the survey. Full results of the survey are available through the City of Minneapolis, Department of Planning and Community Development.

Please note that these findings are not statistically significant, and, therefore, should not be extrapolated to the entire population. Nonetheless, the survey results are valuable qualitative data that enhances our understanding of neighborhood dynamics and the needs and desires of those who work, live, or visit Stadium Village.

- There were 448 total respondents to the survey.
- Employees of the area were by far the largest group of respondents accounting for nearly two-thirds of respondents.
- Accessibility to the U of M and the ability to walk, bike, or use transit were considered the most important characteristics of the neighborhood.
- Parking and traffic congestion were considered the biggest challenges for the neighborhood, but factors contributing to a poor public realm, such as wrong retail mix, traffic safety, no open space, and poor sidewalk and bike spaces, also garnered substantial attention.
- More pedestrian and bicycle connections topped the list of what is needed in the area, but close behind were retail, parking, and public open spaces.
- Although many respondents drive alone (62.6%) to the Stadium Village area, which is not surprising given the large proportion of employees who responded to the survey, walking (51.2%), bus (42.4%), and bicycle (26.3%) are important alternatives.
- Housing for young professionals and students was considered to be the most needed housing type.
- As for other development types, a grocery store or supermarket far outweighed all other possible types of development. Over 80% of respondents felt this use was needed in Stadium Village. Whereas, the next largest need was for a restaurant/coffee shop with outside seating, which didn't even reach 50% of respondents.
- Lack of parking and traffic patterns were considered the biggest barriers to new development in Stadium Village. Interestingly, though, high cost of land also scored high as well.

Retail Market

INTRODUCTION

Retail is one of the most highly competitive and fluid real estate market sectors. Existing stores are constantly being challenged by new concepts, locations and competitors. Turnover is very common and tenants and landlords must constantly be listening to the market and making strategic reinvestments or tenant mix changes to ensure their centers are vibrant and profitable.

It is important to monitor this constant market change to ensure that the total size of available retail space is in line with retail demand. When available retail space is beyond the size that can be supported by market demand, vacancies become more common. For retail areas dependent on a large retailer, such as a mall or center, this can be amplified by a "domino effect" caused by the common practice of co-tenancy where one tenant's lease requirements are tied to the condition that another tenant remains active in the area.

Excess retail supply also puts downward pressure on lease rates which can reduce the cash flow available to landlords for making the strategic reinvestments necessary for their property to remain competitive. This can lead to an overall decline in retail quality and can lead to negative impacts that can be a community concern.

The other reason to monitor the size of the retail market is to prevent an overly restrictive retail environment. When a community does not provide sufficient retail area to satisfy market demand, then the variety of retail options available to its customers may be

reduced and economic activity is diverted to other retail districts or communities.

It is therefore very important that communities attempt to find a balance between the amount of retail development and retail market demand.

TYPES OF RETAIL CENTERS AND GOODS

The design of retail districts in urban areas has changed significantly during the 20th century, expanding from walkable town centers to auto-oriented shopping centers to the diverse types of retail centers we see today. Many of the changes have been linked to metropolitan growth patterns, changes in urban transportation systems – including the rising dominance of the automobile – and evolving retailing technologies.

One result of this change is that communities have inherited a mix of current and older retail centers that vary in economic performance and physical character. Whether a retail location is older, such as a downtown, or brand new, there is a promising opportunity to create pedestrian-friendly uses by adopting urban design approaches that emphasize links to local neighborhoods, walkability, transit access, complementary land uses, and natural amenities.

A clear understanding of the form and dynamics of retail centers is helpful when positioning them in a community. They can vary dramatically based on:

- Physical size
- Built form
- Metropolitan location
- Transportation access
- Size of Trade Area

- Mix of services and tenants
- Presence of competing centers

Many forces can affect the performance of retail districts over time:

- Changes in the regional transportation system can alter the relative situation of districts, e.g. freeway or transit station proximity.
- A boom in construction of retail centers during the 1960s-1980s resulted in an overbuilt retail market in many communities today.
- Aging retail centers often need major renovation, expansion, or repositioning to be competitive.
- Changing demographics in the Trade Area may reduce buying power or create a market mismatch for a retail district.
- Smaller retail districts often lack space for expansion and struggle to compete with areas that can accommodate stores that are increasingly larger, e.g. supermarkets and discount stores.
- Competition can increase due to new and expanding retail districts within five miles.
- Diversification of shopping center types with new formats and popular tenants increases the competitive challenge.

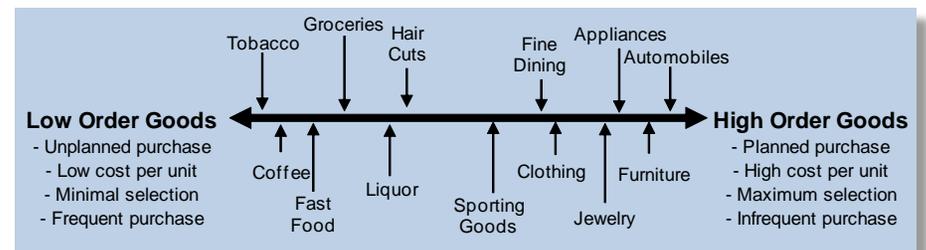
The area from which a retail district draws the majority of its business is known as the Trade Area. The boundary for a Trade Area is determined by many factors, but mostly by the location of the next closest district offering a similar complement of goods and services. Ideally, the Trade Area for a given district has no other competitors for several miles in each direction, giving the district the strong advantage of convenience to the households and employers surrounding it. In reality, travel routes and intervening land uses (e.g. large rail yards with no crossings) often make one district more

convenient than another retail district that is closer “as the crow flies.”

Determining the Trade Area around a retail district depends on the amount of goods and services it can offer to the surrounding household base; the level of offering is usually related to the size of the district and the order of goods and services available.

Goods are often classified on a relative scale from lower order to higher order goods. Lower order goods are those goods which consumers need frequently and therefore are willing to travel only short distances for them. Higher order goods are needed less frequently so consumers are willing to travel farther for them. These longer trips are usually undertaken for not only purchasing purposes but other activities as well. Figure 16 demonstrates where some of the common goods and services might fall along this continuum.

Figure 16: Hierarchy of Retail Goods and Services



It is also important to keep in mind that retail trade areas vary considerably, depending on surrounding housing density and the attraction of the specific retail tenants. Stores in higher-density areas can thrive with smaller Trade Areas. Stadium Village is an example of a thriving retail district with a very small trade area.

RELATIONSHIP BETWEEN RETAIL DEMAND AND DEMOGRAPHICS

Retailers capture sales from five main categories of consumers: residents, daily workers, commuters, intermittent (transitory) visitors, and destination shoppers. Of these, residents are usually the main source of income for most retailers. In the case of Stadium Village, however, the sheer number of daily workers means that this group rivals residents as a main source of income.

In general, neighborhood retailers perform best when they are surrounded by “rooftops,” rather than simply trying to capture drive-by traffic or “walk-by” traffic in the case of Stadium Village. The strongest retail locations do a bit of both; they serve the residents living in the surrounding area and, because they are located on high-traffic streets, they capture business from commuters, intermittent visitors, and daily workers.

RESIDENT CONSUMERS

- Spend, on average, between 10%-20% of household income at local retailers (not including auto spending); this is far more per capita and per-trip than other consumer types.
- Support a wider variety of retail goods and personal services than daily workers or transitory visitors; everything from haircuts to hardware to prescriptions.

DAILY WORKERS/STUDENTS

- Spend just a fraction on local retail compared to residents, but can be regular customers for restaurants, coffee shops, and other specific retailers.
- Generally limit their spending time to the working hours during Monday-Friday.
- Spend in narrow categories such as restaurants and convenience/gas.

INTERMITTENT VISITORS

- Are difficult to predict but can be significant sources of business to retailers located on major thoroughfares with good access.

COMMUTERS

- Do not generate high levels of patronage for most retail tenants.
- Like daily workers, can become regular customers for specific retailers such as coffee shops or convenience/gas stations.

DESTINATION SHOPPERS

- Will drive significant distances and make special trips to shop at specific stores.
- Can be very loyal customers for the retailers they patronize.
- May often spend a substantial amount of money at one visit, or over the course of a year.

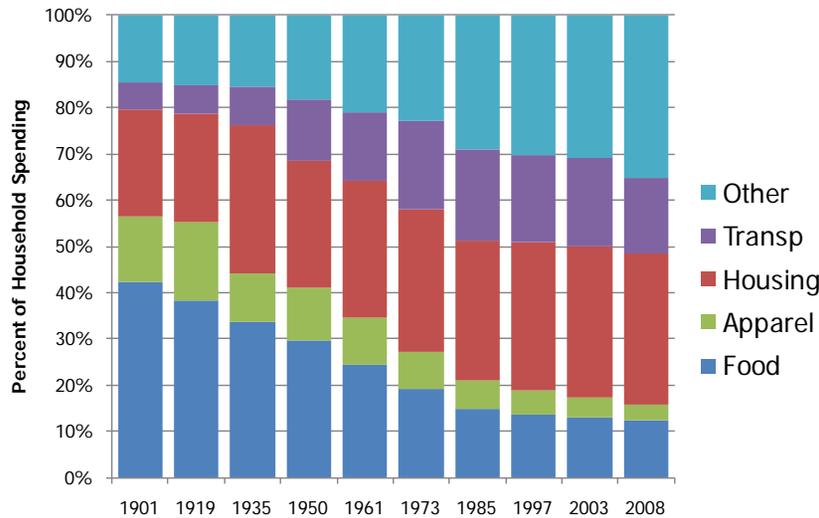
Given that residents (the consumer unit being a “household”) generate the bulk of income for most retailers, the alignment between the demographic characteristics of the surrounding population and the tenant mix of a retail district is crucial. In an ideal world, the mix of tenants at a retail district would satisfy all of the regular needs of the surrounding population.

For example, a strip retail center located adjacent to a subdivision of starter homes with young families would offer such tenants as a grocery store, a hardware store, a drugstore/pharmacy, and family restaurants among others. A retail center in an inner-city urban area with few families would offer independent coffee shops, bookstores, niche restaurants with bars, and other specialty stores catering to singles and professionals. Given the demographic profile of Stadium Village, the dominance of fast food is not surprising.

OTHER FACTORS INFLUENCING RETAIL MARKETS

Over the course of 100 years, consumer spending patterns have shifted dramatically. Categories that typically consist of retail purchases have been squeezed by other categories, namely housing, transportation, and a rapidly growing “other” category, which consists mostly of healthcare, education, and savings. Although the proportion we spend on food and apparel has dropped dramatically due to the industrialization of their processing, Figure 17 below still underscores the fact that an increasing share of spending is being diverted into non-retail categories.

Figure 17: Historic US Consumer Spending as a Percentage of Income, 1901-2008

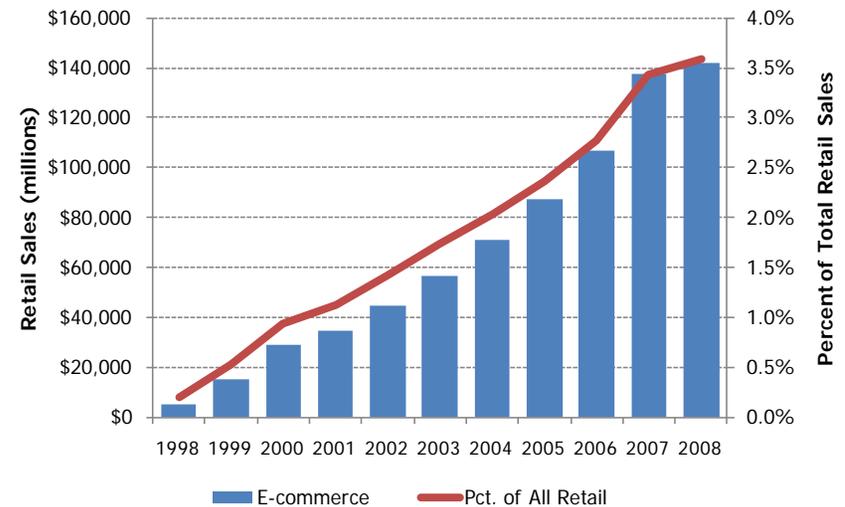


Source: Bureau of Labor Statistics: Consumer Expenditure Survey

More threatening to the long range prospects of traditional retail is the growth in e-commerce or on-line purchasing of goods and services. Overall, e-commerce remains a very small proportion of all

retail spending (Figure 18). However, growth since the late 1990s has been almost exponential. Although it will likely taper as retailers figure out how to more effectively combine the on-line and in-store experience, each half a percentage growth in e-commerce translates into millions of fewer square feet of traditional retail space that can be supported nationwide. However, neighborhood-oriented retail will likely feel less effect because the goods are generally consumed soon after purchase and therefore more immune from online competition.

Figure 18: Growth in E-Commerce Retail Spending



Source: US Census: E-Stats, E-Commerce Multi-sector Report

MACRO RETAIL CONDITIONS

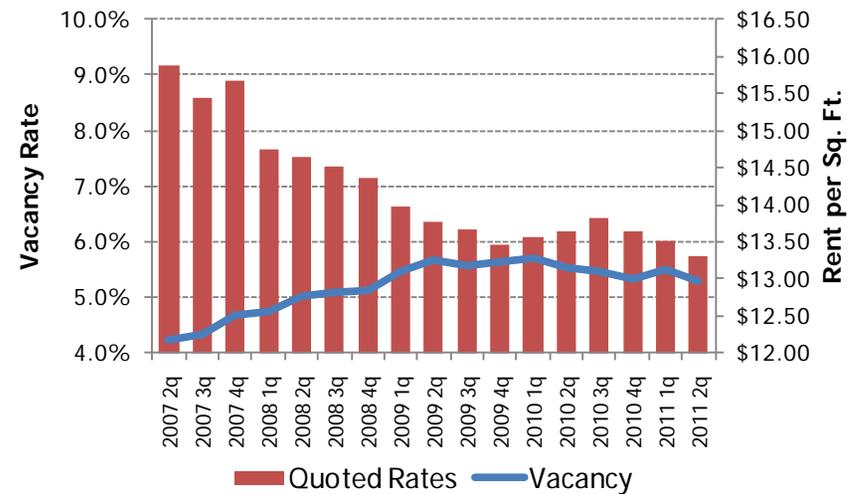
The retail real estate market has been profoundly impacted by the current recession. Retail markets typically lag slightly behind residential markets as most retailers follow the axiom of “follow roof tops.” Not surprisingly, as the residential market crashed due to lax lending standards and over building, the retail market has followed suit. Compounding the problem, high unemployment has resulted in a sharp decline in consumer spending. Finally, this recession was particularly difficult for some retailers because it also included a widespread seizing up of credit markets which contributed to several significant retail bankruptcies, in part, due to inability to manage heavy debt burdens.

The overall retail vacancy rate for the Twin Cities increased sharply from 2007 to 2009 and is currently at 5.3% (Figure 19).

Furthermore, as demand for retail space declines, many retail tenants are renegotiating leases and putting downward pressure on rents. Since 2007, average quoted rates have dropped from nearly \$16 per square foot to around \$13.50 per square foot. Vacancy rates are at the highest rate in 14 years. Most retail development that was planned for 2011 has been postponed, cancelled or scaled back in scope.

As some underutilized retail properties get converted to other uses or demolished, the universe of retail space is shrinking, which has had a positive effect on vacancy rates by stabilizing them or even contributing to a slight decline. However, the overall sluggishness in the economy has kept rents somewhat suppressed.

Figure 19: Metro Area Retail Vacancy and Lease Rates



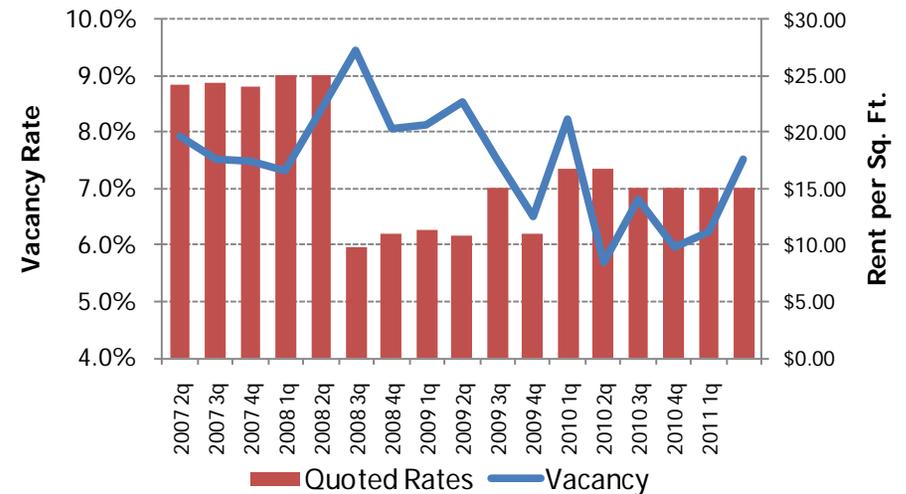
Source: CoStar

STADIUM VILLAGE RETAIL CONDITIONS

Retail vacancy and lease rates in Stadium Village are marked by large, dramatic shifts (Figure 20), often occurring from one quarter to the next. This is largely due to the fact that a change among one or two sizable properties has a big impact on the overall data. Despite this limitation, though, we can see from Figure 20 that in recent years quoted lease rates have been as high as \$25 per square foot, which is very high especially when compared to the metro average. This indicates that Stadium Village is a strong area for retailing. Although the availability of more marginal retail space with lower rents has dropped the area average, it appears that lease rates have stabilized around \$15 per square foot, which is still above the metro rate.

Although Figure 20 also shows volatility in the vacancy rate, the overall trend appears to be downward. This is counter to the metro trend, which has displayed slight increases in recent years. Furthermore, though the Stadium Village vacancy rate is above the metro area rate, metro statistics are heavily influenced by suburban style shopping centers and large “big-box” stores, which lack the kind of older, hole-in-the-wall types of retail spaces found in urban districts such as Stadium Village. Therefore, if one were to account for these types of marginal spaces, Stadium Village would likely have an even lower vacancy rate than the metro rate.

Figure 20: Stadium Village Retail Vacancy and Lease Rates



Source: CoStar

Figure 21 displays the location of retail properties in Stadium Village as well as their relative size and available space. Retail properties located west of Huron Boulevard appear to have several different characteristics than those east of Huron Boulevard. First, the properties are much more tightly concentrated. Second, there is a wider variation in their size, including everything from very small properties of less than 1,000 square feet to properties in excess of 30,000 square feet. Third, there is very little availability, especially given the number of properties and the aggregate amount of overall rentable space.

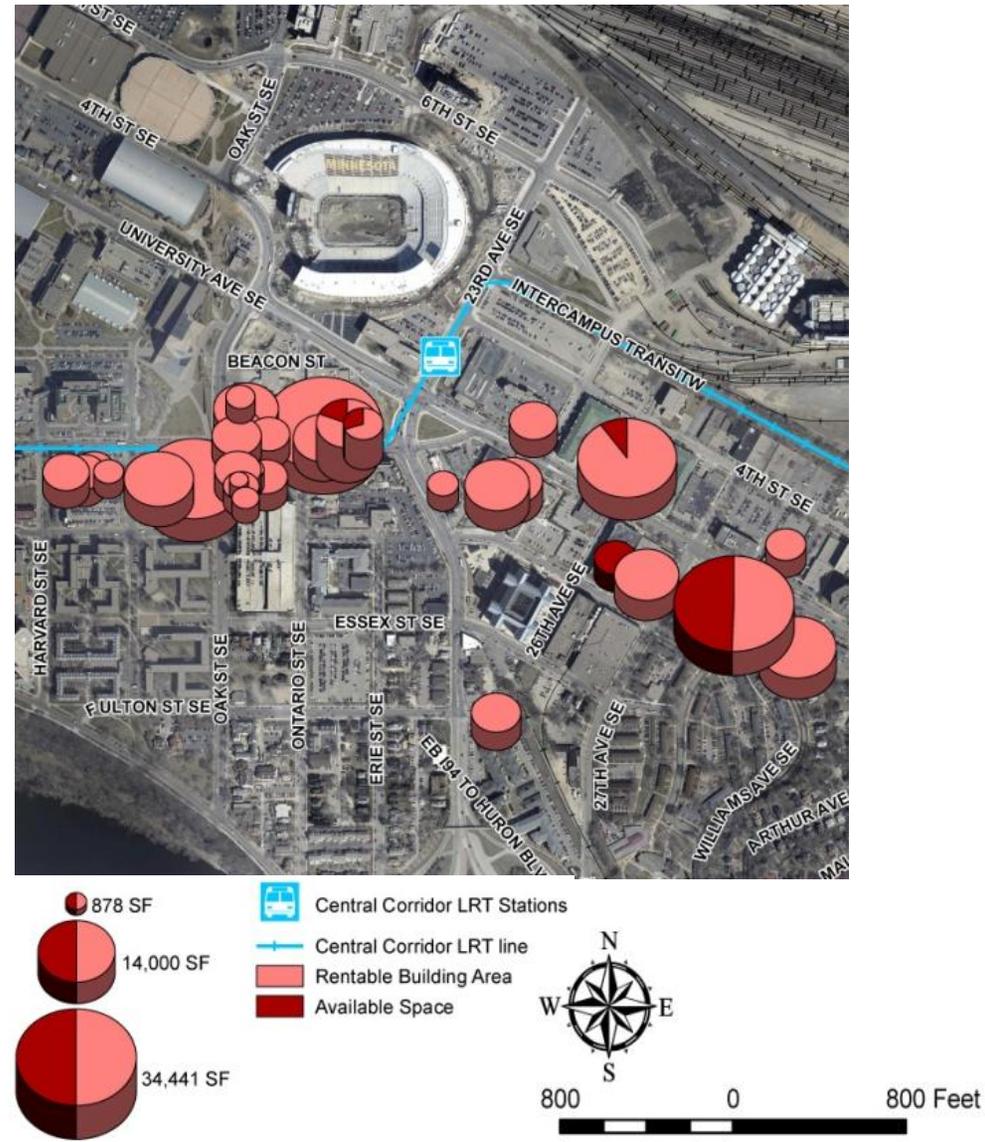
This is in contrast to the retail properties east of Huron Boulevard, which are more spread out, larger in size, and have more available space, though many of the properties are 100% occupied as well.

Figure 21 also emphasizes how important Washington Avenue is as a commercial corridor since very little retail space falls outside of this corridor. This places tremendous pressure on properties fronting Washington Avenue to function as retail spaces.

RETAIL MIX

It is important to note as well that the general nature of the retail businesses differ from one subarea to the other subarea. West of Huron Boulevard along Washington Avenue, there is a heavy emphasis on restaurants, especially fast food. This includes both national chains drawn to the high volume of pedestrians, such as Dairy Queen, Chipotle, Burger King, Caribou Coffee and Jamba Juice, as well as independent operators, such as ethnic restaurants and off beat pizza parlors, who depend on cost-conscious students. There also are examples of niche retailers who cater to University employees and students, such as highly specialized bookstores, stores that sell campus apparel, and copy centers.

Figure 21: Stadium Village Retail Properties and Vacancy



Despite the vibrant nature of retailing in this subarea, the mixture of stores is limited due to the effect of the University of Minnesota. The large number of employees and non-resident students concentrated nearby on campus means that businesses that provide goods and services to daily workers and visitors (i.e., fast food restaurants) tend to outbid businesses that would provide goods and services to residents (i.e., grocery stores, hardware stores, etc.). This is compounded by the fact that these more neighborhood-oriented businesses often operate on lower sales per square foot or smaller margins than those who cater to daily workers and visitors. Furthermore, the lack of available space keeps the market sufficiently tight, which again presents yet another hurdle to accommodating a greater mixture of retail businesses.

West of Huron Boulevard, there is a strong complement of restaurants as well but the retail and commercial space includes more specialty retailers who serve a much larger trade area and cannot rely on pedestrian traffic generated by the University employees or students. An example of this type of business is the Little Dearborn Auto Parts store, which specializes in parts for antique Ford cars. Another example is the Textile Center, which draws patrons from all over the Metro Area. These businesses locate in this subarea, which maybe more adjacent to Stadium Village than within it, because of its centralized location within the Metro Area, more modest rents, and a slightly more spread out nature, which can allow for more on-site vehicle parking.

RETAIL DEMAND ANALYSIS

In order to better understand the current and potential future demand for retail space in Stadium Village, a retail demand analysis was conducted. The demand analysis quantifies per capita spending of residents, workers, and visitors within a Trade Area and translates that spending power into supportable retail space. As discussed

previously, Stadium Village has a very tight trade area due to its relatively dense built environment, the proximity of competitive retail districts, and the impact of the University of Minnesota. Figure 22 below helps illustrate the methodological steps needed to translate the number of people in the Trade Area into supportable retail space. A full explanation of the methodology and the assumptions that go into it are provided in Appendix A.

The retail demand analysis not only quantifies the overall amount of retail demand, but it can also help discover which retail categories may have an unmet need within the Trade Area.

Figure 22: Retail Demand Methodology

		Number of Persons in Trade Area
(times)	x	Per Capita Income
(equals)	=	Aggregate Income
(times)	x	Proportion of Spending per Consumer Category
(equals)	=	Total Dollars Spent
(times)	x	Proportion Spent within Trade Area
(equals)	=	Total Dollars Spent within Trade Area
(divide)	/	Average Sales per Square Foot
(equals)	=	Total Supportable Square Feet
(less)	-	Existing Retail Space
(equals)	=	Additional Supportable Retail Square Feet

Table 5: 2010 Stadium Village Retail Demand Calculations

Persons		Residents ¹	Non-Resident Students ²	Daily Workers ²	Visitors ³
		9,980	10,000	19,200	5,000
(times)	Per Capita Income ⁴	x \$7,772	\$6,314	\$42,159	\$42,159
(equals)	Aggregate Income (in thousands)	= \$77.6	\$63.1	\$809.5	\$210.8
(times)	Expenditures as a Percent of Income ⁴	x 117%	137%	79%	79%
(equals)	Total Expenditures (in thousands)	= \$90.8	\$86.5	\$639.5	\$166.5
(times)	Retail Expenditures as a Percent of Total ⁵	x 31%	32%	29%	29%
(equals)	Retail Expenditures (in thousands)	= \$28.3	\$27.7	\$185.5	\$48.3
(times)	Percent of Expenditures in Stadium Village ⁴	x 89%	11%	11%	11%
(equals)	Retail Expenditures in Stadium Village (in thousands)	= \$25.2	\$3.0	\$20.8	\$5.2

\$54,274,296

Consumer Expenditure Survey (CES) Spending Categories	Expenditures by Category	Avg Sales Per Sq. Ft. ⁶	Supportable Square Feet	Existing Space (approx.) ⁷	Retail Demand (+/-)
Food at Home	\$9,830,338 ÷	\$350 =	28,087 -	4,000 =	24,087
Food Away from Home	\$19,975,867 ÷	\$250 =	79,903 -	70,000 =	9,903
Alcoholic Beverages	\$1,886,862 ÷	\$325 =	5,806 -	4,300 =	1,506
Housekeeping Supplies	\$1,044,104 ÷	\$200 =	5,221 -	0 =	5,221
Household Furnishings	\$2,936,177 ÷	\$150 =	19,575 -	0 =	19,575
Apparel	\$6,738,358 ÷	\$225 =	29,948 -	2,300 =	27,648
Drugs & Medical Supplies	\$2,137,887 ÷	\$400 =	5,345 -	1,700 =	3,645
Entertainment (excl fees)	\$5,323,789 ÷	\$150 =	35,492 -	9,700 =	25,792
Personal Care Products & Services	\$1,902,312 ÷	\$300 =	6,341 -	7,700 =	-1,359
Tobacco	\$2,498,602 ÷	\$1,000 =	2,499 -	500 =	1,999
Total	\$54,274,296		218,215	100,200	118,015

¹ Population per 2010 U.S. Census Tract 1049

² University of Minnesota

³ Estimate based on U of M Hospital traffic, capacity of area sports and cultural venues, and transit ridership

⁴ See Appendix A for complete explanation

⁵ Retail expenditures vary by market because of age distribution within the population. A more detailed explanation is provided in Appendix B.

⁶ Averages are based on the Urban Land Institute's annual survey of retail property owners and managers

⁷ Based on fieldwork and data from CoStar, a commercial real estate database

Based on Table 5, there currently is nearly 120,000 square feet of pent-up retail demand not being met in Stadium Village. All but one consumer spending category show a net positive demand with the largest demand in the Food at Home (i.e., grocery), Household Furnishings, Apparel, and Entertainment categories. This is not surprising, and somewhat expected, given that most retailers that provide goods and services in these categories operate large, “big box” formats that would have a hard time adapting a suburban model to fit within urban areas, such as Stadium Village. Nonetheless, the figures demonstrate how the lack of adequate commercial space is forcing Stadium Village residents, workers, and visitors to meet their retail needs outside of Stadium Village.

The only consumer spending category in which calculated demand does not exceed supply is Personal Care Products and Services. This is largely due to the fact that the student population supports more than one tanning salon and a copy center.

FORECASTED RETAIL DEMAND

Retail demand for Stadium Village was also calculated based on forecasted growth in the number of residents, workers, and visitors. The methodology was identical to what was presented above except for adjustments made to the number of persons. Because of the inherent uncertainty of forecasting future growth, low, medium, and high growth scenarios are presented. Table 6 shows the forecasted growth figures for each market group, while Table 7 summarizes the future retail demand projections.

Building upon an already large unmet need, if no additional retail space is added to Stadium Village in the next 10 years, demand for retail space will increase to between 150,000 to 170,000 square feet of space by 2020.

Table 6: 2020 Forecasted Stadium Village Growth Figures

Market Group	Low	Medium	High
Residents	10,980	11,480	11,980
Non-Resident Students	10,000	10,000	10,000
Workers	20,200	20,500	21,000
Visitors	6,500	6,750	7,000

Note: an explanation of the rationale for estimating each growth forecast is included in Appendix A.

Table 7: 2020 Forecasted Stadium Village Retail Demand

Consumer Expenditure Survey (CES) Spending Categories	Retail Demand (+/-)		
	Low	Medium	High
Food at Home	27,725	28,927	30,200
Food Away from Home	24,939	27,547	30,576
Alcoholic Beverages	2,275	2,474	2,701
Housekeeping Supplies	5,744	6,005	6,267
Household Furnishings	21,536	22,517	23,497
Apparel	32,292	33,447	34,705
Drugs & Medical Supplies	4,241	4,378	4,555
Entertainment (excl fees)	31,446	32,825	34,298
Personal Care Products & Services	-220	20	286
Tobacco	2,431	2,505	2,596
Total	152,408	160,644	169,682

RETAIL CONCLUSIONS

There is significant opportunity to introduce more retail into Stadium Village. At a little over 100,000 square feet of aggregate space, the current amount and variety of retail offerings is not meeting demand from area residents, workers, and visitors. Based on calculated spending power, the amount of additional retail that could be supported today is close to 50,000 square feet. Furthermore, given conservative growth figures, it could grow by another 20,000 to 30,000 square feet by 2020.

Assuming typical suburban land to building ratios of 4-to-1, which account for maximum on-site parking needs, the amount of calculated retail demand would translate to 6.5 to 7.3 acres needed for new development. However, with more urban parking standards and other strategies, such as shared parking or off-site parking, this ratio could be reduced to 2-to-1, which translates to 3.2 to 3.7 acres needed for redevelopment.

From a planning perspective, the high level of demand is a good problem to have. Retailers want to be in Stadium Village. The problem, however, is not in finding ways to grow this demand but will be in finding spatial solutions that accommodate retail demand without compromising the need to accommodate other land uses. However, just because there are enough people in Stadium Village to support additional retail does not mean that any and all retail development will be successful.

First of all, new retail will have to take into consideration strategic locations that maximize visibility and accessibility. And for Stadium Village, accessibility is more contingent on pedestrian accessibility than vehicular accessibility. This is no more evident than the example of retail space located further east along University Avenue that is several blocks away from the core of Stadium Village. These

retail spaces have good visibility along University Avenue, but lack the accessibility to key concentrations of pedestrians. As a result, newer, more expensive retail space in these properties often remains vacant because the retailers who can justify the rents do not have the accessibility enjoyed by properties further west and closer to the campus.

Secondly, modern retailing has diversified in recent years in such a way that many categories of goods can only be delivered by large-format retailers who require a substantial number of households in their trade areas (often far more than Stadium Village) in order to support their operations, which are dependent on economies of scale. The classic example of this is Target or Wal-Mart who are most profitable when their stores are as large as possible, which necessitates ever larger trade areas. Grocery stores also fall into this category in most formats, though niche or destination grocery, such as Trader Joe's, Whole Foods, Lunds, and Kowalski's, can thrive with smaller stores.

Although Stadium Village has a substantial unmet demand for grocery store goods, the challenge is that a grocery store less than 20,000 square feet is hard to justify for many operators because their profit margins are so slim and they need to operate on volume instead of mark-up. This makes shopping at a grocery store more difficult to do without a car because of the need to haul large volumes of goods. With that being said, though, Stadium Village is somewhat unique within the Twin Cities in that car ownership is relatively low and residents, therefore, are challenged to go outside of the immediate area for groceries. In other words, the Stadium Village Trade Area is a highly captive trade area, which may entice some grocery retailers because they could potentially increase their profit margins in order to defray any costs associated with a lack of

economies of scale. Again, this is the economic condition in which niche or destination grocery stores can thrive.

Because certain retailers will have trouble finding appropriate spaces in Stadium Village to accommodate their standard formats, it is likely that some of this pent-up demand will never be satisfied within Stadium Village. The result, though, is that retailers may consider locations along the Central Corridor LRT proximate to Stadium Village that has the room to accommodate this demand. For example, it is possible that a retailer may consider 29th Avenue as a location because they could find a property that is large enough for their format, perhaps have on-site parking, which helps increase the size of their trade area, and take advantage of the LRT.

Office & Industrial Markets

INTRODUCTION

This section provides an overview of the regional and local market trends for both office and industrial space. Both of these real estate sectors are discussed in the same section because each are closely tied to employment growth in key economic sectors. This section concludes with a demand analysis that forecasts how much future need there will be for each sector and the likely impact this will have on Stadium Village.

Office submarkets are defined heavily by highway visibility, accessibility, and character of the area, especially among high profile users, such as corporate headquarters, regional branches, or businesses where status is a premium (e.g., law offices and financial services). Corporate offices often have customers spread throughout a region, the nation or even globally and so the office market often does not have the same requirements to be close to customers, as with retail. Therefore, the size of office market Trade Areas tends to be much larger than other land users, such as retail. It should be noted, however, that some segments, such as healthcare related offices do experience significant customer traffic and therefore operate more like retail operations in their location decision making.

Industrial submarkets are defined by highway accessibility, location of suppliers, availability of key infrastructure (e.g., rail, airport, or seaport), and compatible surrounding uses. Furthermore, the horizontal nature of many industrial users, be it a manufacturing or warehouse operation, often require large parcels of land. Therefore, industrial users have been slowly migrating outside of the core urban

areas for decades in search of lower cost land near highways and away from incompatible neighbors. Furthermore, industrial tend not to have traditional trade areas in the same manner as retailers or certain types of office users. The success of their operations is more often the result of matching suppliers with labor at key transportation nodes and the growth of their business is as much dependent on regional, national, or even global economic trends as it is on local trade areas.

OFFICE MARKET CONDITIONS

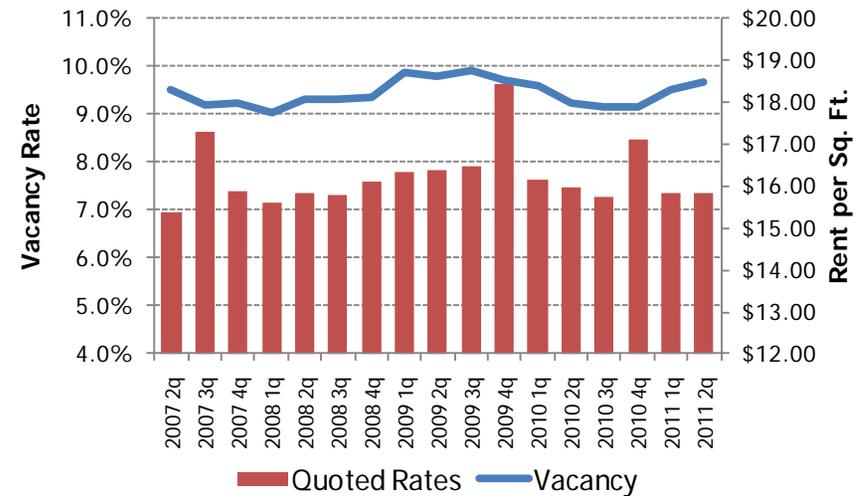
METRO TRENDS

As with other real estate classes, the office market is suffering due to the nation's economic downturn. Companies that have reduced hiring levels have excess office space and can undercut landlords with reduced rent subleasing. Very few businesses are looking for additional office space and those that are in the market are maximizing their leverage with demands for reduced rent and extensive tenant improvement packages. Landlords are reluctant to enter into long term lease arrangements that would "lock in" current low rental rates. Landlords are attempting to remain profitable by aggressively cutting operating costs and making targeted capital improvements to improve their buildings.

The impacts of these trends can be seen in Figure 23. Overall vacancy rates in the Twin Cities have been hovering between 9% and 10%, which is well above historic vacancy rates. It should be noted that these vacancy figures reflect actual vacant space that is being actively marketed and does not account for space that is occupied and being marketed nor does it account for vacant space that is not being actively marketed.

Figure 23 also show how the concessions many tenants were going after can be seen in the decline in lease rates since 2009.

Figure 23: Metro Area Office Vacancy and Lease Rates



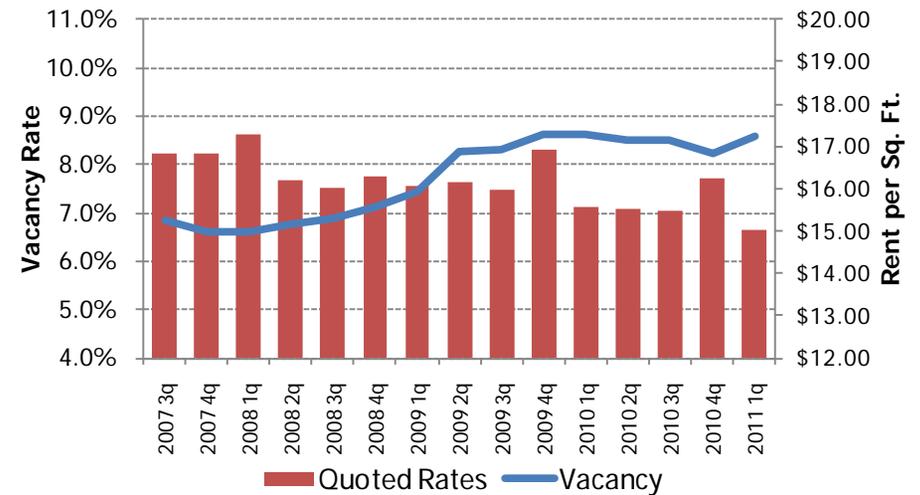
Source: CoStar

MIDWAY SUBMARKET TRENDS

Office space in Stadium Village is part of a broader trade area that generally extends east into Saint Paul and includes much of the area referred to as the Midway. This area has strong office nodes all along University Avenue, in particular the intersections at Highway 280 and Snelling Avenue. The office space in the Midway district is driven by businesses that prefer a centralized location within the Metro Area, yet do not want to pay the rents commanded by a downtown location. For example, many professional associations and non-profit organizations are located in this submarket. Also, businesses that benefit from close proximity to the University of Minnesota, the Minnesota State Capitol, and numerous large medical facilities prefer the Midway submarket.

The Midway submarket currently has a vacancy rate of 8.2%. This is lower than the Metro rate. However, the rate has steadily increased since 2007 when it was below 7.0%. The average quoted rent is just over \$15 per square foot, which is slightly lower than the Metro quoted rent. Related to the vacancy rate, quoted rents in the Midway submarket have been steadily declining over the past three years.

Figure 24: Midway Office Vacancy and Lease Rates



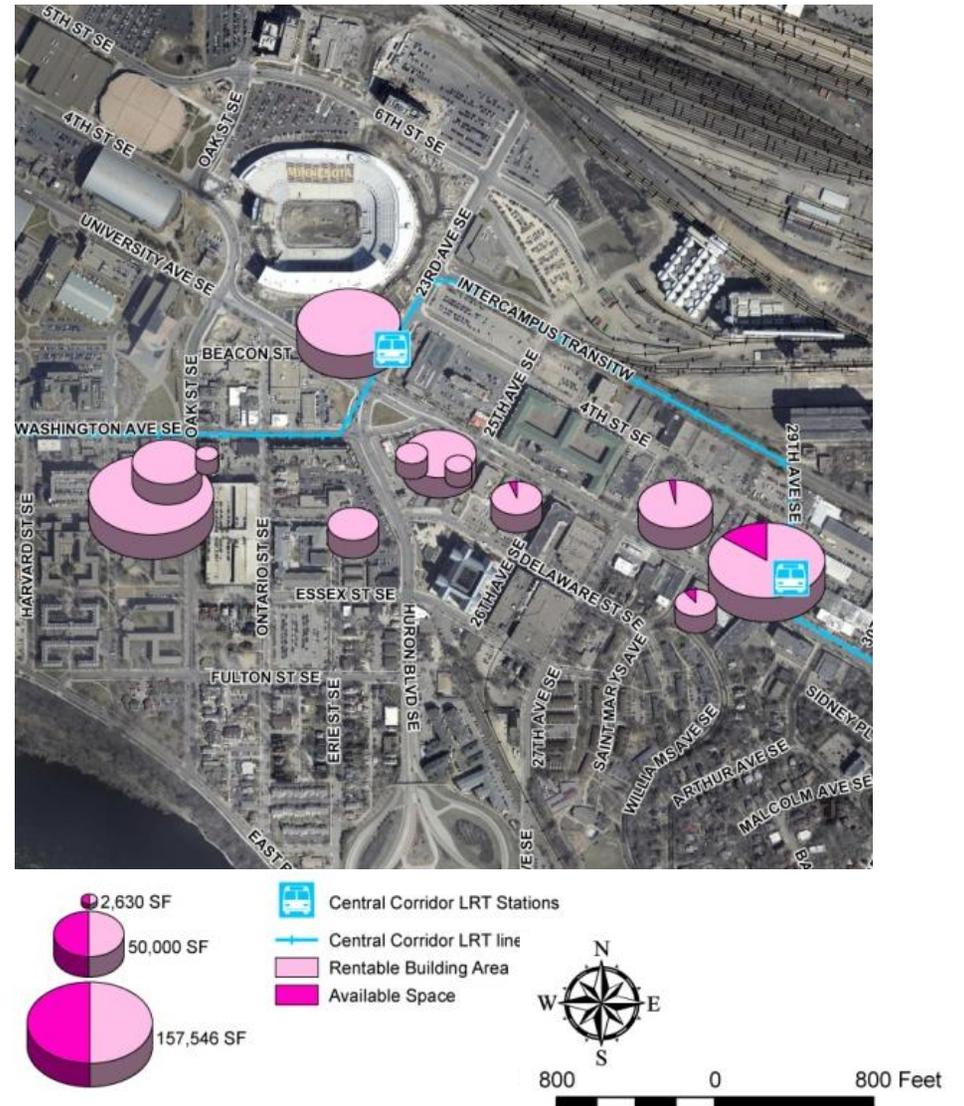
Source: CoStar

STADIUM VILLAGE OFFICE SITUATION

Figure 25 displays office properties in the Stadium Village area and their relative amount of vacant, available space. Stadium Village has far fewer office properties than retail properties. The map also shows that nearly all of the office space located within two to three blocks of the station is fully occupied. Although this would normally suggest a very tight office market, much of this space is actually occupied by the University of Minnesota or the Minnesota Department of Health. If one were to eliminate properties occupied by the University of Minnesota and the Department of Health, there would be a very small amount of office space in Stadium Village.

It is not readily apparent from Figure 25, but there is a significant amount of office space located just off the map to the east along University Avenue near Highway 280. The most prominent building in this area is the Court International building, a Class A office building with more than 320,000 square feet of space. Also, in this same vicinity is a proposed office building located at 2700 University Avenue, just east of the Minneapolis-Saint Paul border. This building would be Class A office with 57,000 square feet. Despite being on the market for the several years, the developer has been unable to find a large enough anchor tenant to trigger development of the project.

Figure 25: Stadium Village Office Properties and Vacancy



INDUSTRIAL MARKET CONDITIONS

METRO TRENDS

Industrial vacancies in the Metro Area have oscillated between 6.5% and 7.5% since early 2008. Quoted lease rates have declined about 10% since late 2008, yet they appear to have stabilized at \$5.80 per square foot. Anecdotal information from real estate brokers who specialize in industrial property have indicated that certain industrial sectors, like manufacturing, are beginning to show signs of improving as the weak dollar makes American exports more attractive, which results in employment growth and modest demand for new space.

MIDWAY SUBMARKET TRENDS

Similar to the office market, the local industrial market extends beyond Stadium Village and east into Saint Paul. This historic corridor has been centered on the BNSF rail yards that are situated just north of Stadium Village but extend east all the way to the Capitol area in Saint Paul.

Vacancy rates for industrial properties rose sharply from early 2008 until early 2010 when they peaked at 11.5%. The vacancy rate has improved since then but still remains above 9.0%. Mirroring the increase in vacancies has been the drop in quoted lease rates, which dropped nearly 20% between 2008 and 2010, but have since slightly rebounded.

Figure 26: Metro Area Industrial Vacancy and Lease Rates

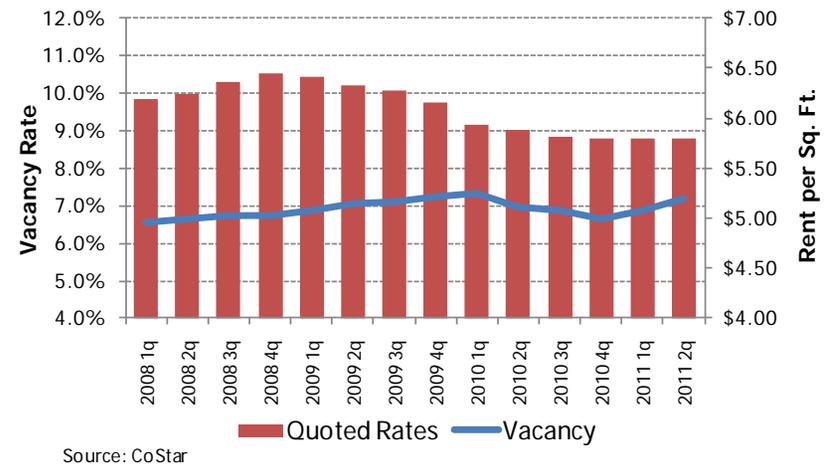
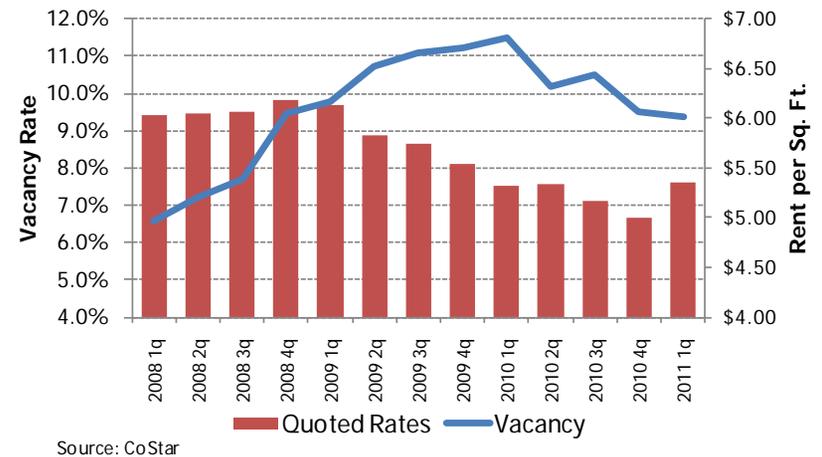


Figure 27: Midway Industrial Vacancy and Lease Rates



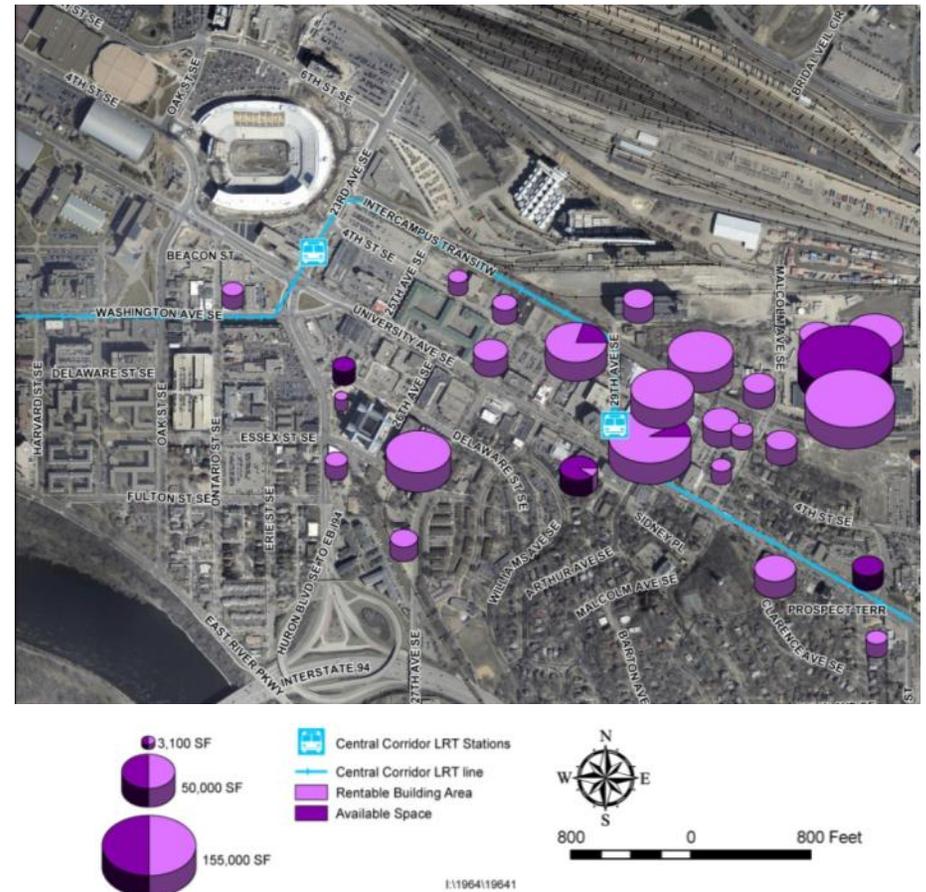
STADIUM VILLAGE INDUSTRIAL SITUATION

There are very few industrial properties located within two to three blocks of the Stadium Village station. Of the handful of properties that are relatively close to the station, they tend to be older, smaller industrial properties of less than 5,000 square feet, which in today's economy means that the use is probably marginal and certainly not supportive of modern, large-scale industrial operations.

About ¾ of a mile east of the Stadium Village station, north of University Avenue, and situated between the 29th Avenue and West Gate stations, is a concentration of industrial properties, several of which are larger buildings that are more marketable. This is because buildings in this area have better access to Highway 280 and Interstate 94, are located in an area that is already industrial in character, and have features demanded by today's market (e.g., taller ceilings, adequate turnaround spacing for tractor trailers, numerous truck bays, etc.).

Nonetheless, even industrial properties in this area are losing traditional industrial tenants dependent on truck access and large building footprints. This is because the demand for other uses is increasing, such as student housing, flexible office spaces that can accommodate storage or laboratory areas, as well as specialty uses, like the Textile Center and Profile Event Center.

Figure 28: Stadium Village Industrial Properties and Vacancy



OFFICE AND INDUSTRIAL DEMAND ANALYSIS

In order to better understand the potential future demand for office and industrial space in Stadium Village, a demand analysis was conducted. Table 8 outlines the methodology and calculations of the analysis. A full explanation of the assumptions used in the calculations and sources of information are included in Appendix B.

It is estimated that the Stadium Village area could support up to 42,000 square feet of new market-driven office space through 2020. This is based on forecasted growth in office based jobs and the proportion capturable in Stadium Village.

Several factors influenced the proportion of office jobs capturable in Stadium Village. First, Stadium Village has historically not been a strong office submarket for users other than the University of Minnesota. Second, this analysis limits the geographic scope of Stadium Village to about a four or five block radius around the station. It does not consider areas closer to the

Table 8: Office and Industrial Demand Methodology and Calculations

Metro Area Forecasted Employment Growth 2009-2019 ¹		144,099						
		Office Demand			Industrial Demand			
(times)	Percent in Office and Industrial Sectors ²	x	31.6%			1.2%		
(equals)	Employment Growth by Real Estate Sector	=	45,519			1,659		
			<u>Low</u>	<u>Medium</u>	<u>High</u>	<u>Low</u>	<u>Medium</u>	<u>High</u>
(times)	Percent Capturable in Stadium Village ²	x	0.2%	0.5%	0.8%	0.0%	0.1%	0.3%
(equals)	Stadium Village Employment Growth	=	91	228	364	0	2	5
(divide)	Avg. Square Feet Needed per Worker ³	/	150	150	150	500	500	500
(equals)	Total Square Feet for Employment Growth	=	13,656	34,139	54,623	0	830	2,489
(less)	Estimated Amount of Marketable, Vacant Space ⁴	-	12,635	12,635	12,635	0	0	0
(equals)	Potential Demand	=	1,021	21,504	41,988	0	830	2,489

¹ Minnesota Department of Employment and Economic Development
² See Appendix B for full explanation of how percentages were derived
³ Based on industry averages
⁴ CoStar database and Bonestroo fieldwork

29th Avenue or West Gate stations, which are much better positioned to capture office demand. Third, build out of the University's Bio-Medical Discovery District is not included in these figures as the development of these buildings is contingent more on the University's ability to secure grants and other funding sources than on any market-driven demand. It also should be noted that there would some expectation that the build out of the Bio-Medical Discovery District would "spin-off" a significant amount of market-driven office demand in Stadium Village. In part this is accounted for in the "high" growth scenario. However, it is also likely that this type of office demand will be attracted to the 29th Avenue and West Gate stations as much as or more so than the Stadium Village station area.

The demand for industrial space in Stadium Village is virtually non-existent unless one was to include some of the build out of the Bio-Medical Discovery District as perhaps being more industrial in nature than office in nature. However, for reasons stated previously, this analysis is only limited to market-driven demand and demand generated by the University of Minnesota. Even under a high growth scenario, this would only generate 2,500 square feet of demand for industrial space in the next 10 years, which is not enough demand to justify new development.

Although the changing character of Stadium Village has a big part in why industrial demand in the area is nearly zero, another important factor is that the State of Minnesota does not foresee strong growth in the number of industrial jobs over the next 10 years. This is largely due to the fact that manufacturing jobs, a key component to industrial employment, is forecast to substantially decline in the next 10 years. The result of which will be an oversupply of manufacturing space in the Metro Area. Furthermore, if any industrial space demand were to occur in Stadium Village it would likely be employee

dense industries, such as manufacturing, that would be attracted to an easily accessible workforce who can reach Stadium Village via transit. However, given the potential glut of manufacturing space due to the State's forecasted contraction of jobs in that sector, it is difficult to imagine how a costly new development could compete with a potentially large supply of available space.

OFFICE AND INDUSTRIAL CONCLUSIONS

The amount of calculated future demand for market-driven office space peaks at a little over 40,000 square feet through 2020. This does not include office development related to University of Minnesota expansion plans as their growth is not necessarily dependent on broader market conditions of real estate supply and demand.

Although 40,000 square feet may seem somewhat low, it takes into consideration several factors which limit demand for office space in Stadium Village. First, there currently is very little market-driven office space in Stadium Village, which suggests that market demand has never been particularly strong, especially given the centralized location of Stadium Village within the Metro Area.

Second, other uses in Stadium Village, such as housing and retail, easily outbid office uses because demand is much stronger. Third, the type and amount of office space needed among businesses is rapidly shifting because of technological changes that require less work space, such as telecommuting. Fourth, the area to the east of Stadium Village is a much stronger office market, and there is available space in those areas to accommodate future growth thus limiting the potential for Stadium Village to capture spill over growth.

Finally, many office users are dependent on customer access much like retailers. Therefore, perception of Stadium Village as difficult to

access limits demand to those most in need of being close to the University. Furthermore, once the LRT is operational, demand among office users most dependent on access to the University may diminish as well as some office users may be willing to opt for locations within two to three station stops versus a current need to be within one or two blocks.

Calculated future demand for industrial space is essentially non-existent. Even under a high growth scenario, only 2,500 square feet of demand for industrial space was calculated for Stadium Village over the next 10 years, which is an amount of space that under typical market conditions would never be financially feasible.

The lack of calculated growth is largely due to metro-wide employment forecasts which suggest very weak industrial employment growth over the next 10 years. It is also related, though, to the challenge of being able to support only \$6.00 per square foot rents when other real estate uses can achieve much higher rents, such as student housing (\$24/sf), retail (\$15/sf), and office (\$12/sf). Furthermore, areas north of the BNSF rail yards and further east in St. Paul have a much larger supply of industrial space and are a better fit for industrial uses dependent on truck traffic. Of course, the Bio-Medical Discovery District may spin off the need for high-tech manufacturing that would prefer to be as close to the University as possible. However, modern high-tech manufacturing that does not depend on truck or rail access can often occur in buildings that function more as office buildings than traditional industrial buildings. Thus, the land use response to potentially accommodate these types of uses should recognize office impacts as well as industrial impacts.

Housing Market

INTRODUCTION

The scope of this study did not include a full analysis of housing need in the Stadium Village area because a recent housing study was completed by Maxfield Research on behalf of the University District Alliance in February 2011. That study addressed the current and future demand for housing in four core neighborhoods adjacent to the University of Minnesota, including Prospect Park and Stadium Village. Although it wasn't necessary to duplicate this previous research, it is important to note that housing plays an important role in the market dynamics of Stadium Village, both as a real estate use that competes with other sectors for land and as a key component for defining retail demand. Therefore, this section of the report summarizes the findings of this previous housing study and provides additional analysis based on findings from research presented earlier in this report.

COMPREHENSIVE HOUSING MARKET ANALYSIS FOR THE UNIVERSITY DISTRICT ALLIANCE

The study included a review of demographic trends, characteristics of the existing housing stock, and the current condition of several housing submarkets, including for-sale housing, general-occupancy rental housing, and senior housing. In addition to these traditional market research components, a survey of University of Minnesota alumni was conducted to elicit the level of potential demand for a University affiliated senior housing development located near the campus.

Based on forecasted growth and the current and future supply of housing, it was concluded the University District (consisting of the four neighborhoods surrounding the University of Minnesota) would have a demand for the following number of new housing units in the foreseeable future:

University District Housing Demand 2011-2020 (General Occupancy)

University District Housing Demand 2011-2015 (Age-Restricted)

It is important to reiterate that not all of the identified demand in the study would occur in Stadium Village since the unit total presented is for all four neighborhoods included in the study.

It also bears mentioning that though the study identified demand for more than 2,300 units of housing over the next 10 years, this does not mean all of the demand will translate into new development.

A final note about the housing study is that it did not calculate demand for student housing. However, it did identify recent student

housing developments in the University District and some of the national trends associated with student housing.

IMPACT OF HOUSING DEMAND ON STADIUM VILLAGE

The calculated level of housing demand would translate to an annual average of 265 units of new housing per year. Of course not all of this demand would be focused on Stadium Village because other surrounding neighborhoods could accommodate some of this demand. However, the study did not account for student housing demand, which has been heavily focused on Stadium Village in recent years. Currently, over 250 units of privately-owned student housing are either proposed or under construction in Stadium Village. This does not include a proposed new University housing development, nor does it include additional student housing projects for the Dinkytown and West Bank areas near the University.

Regardless of the exact number of potential new housing units in Stadium Village, it appears that the area will be beset by heavy demand for several years. If it was conservatively estimated that Stadium Village would average 75 new units of housing per year over the next decade at a density of 60 units per acre, that would translate to 12.5 acres needed to accommodate housing. However, given the strong demand for retail space and the University's continued plans for expansion, finding 12.5 acres available for development will be challenging at best.

The impact of this is that housing development will need to increase its density (i.e., taller buildings), be mixed with other uses on the same property, or find locations outside of Stadium Village in adjacent neighborhoods with transit access. All of which are possible and/or likely if demand continues unabated.

Appendix A

METHODOLOGY FOR CALCULATING RETAIL POTENTIAL

GENERALIZED APPROACH

	Persons
(times)	x Per Capita Income
(equals)	= Aggregate Income
(times)	x Proportion of Spending per Consumer Category
(equals)	= Total Dollars Spent
(times)	x Proportion Spent within Study Area
(equals)	= Total Dollars Spent within Study Area
(divide)	/ Average Sales per Square Foot
(equals)	= Total Supportable Square Feet
(less)	- Existing Retail Space
(equals)	= Additional Supportable Retail Square Feet

Primary sources of demand come from four types of persons:

- 1) Residents who live within or nearby the study area
- 2) Employees who work within or nearby the study area
- 3) Students who do not live in the study area but visit on a regular basis to attend classes or other school-related activities

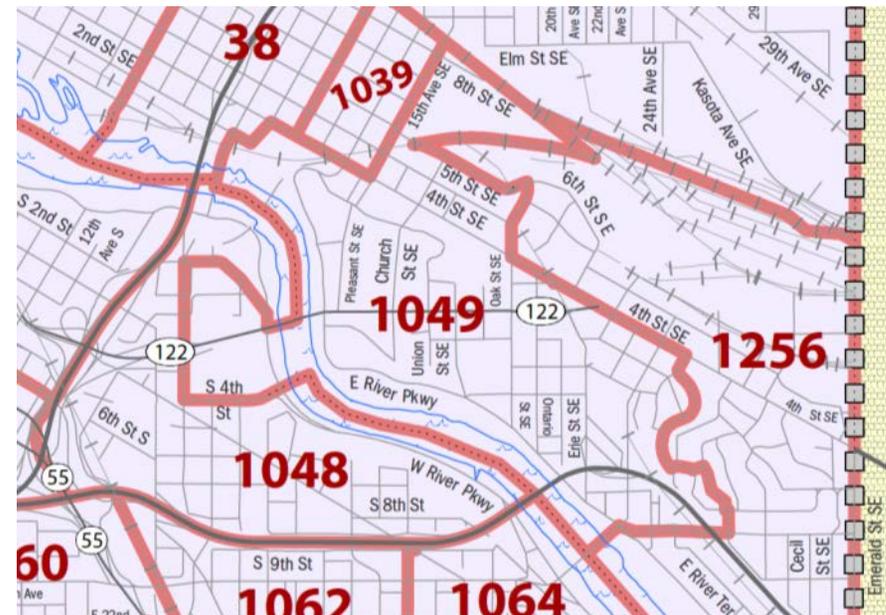
- 4) Other visitors, which would primarily consist of persons visiting the University hospital or related medical facilities, University sporting events, and other similar destination purposes

RESIDENT ASSUMPTIONS

POPULATION IN 2010

It is based on US Census figures for Census Tract 1049, which generally corresponds to the Stadium Village station area. Although portions of Tract 1256 (formerly Tract 1050) would also include the Stadium Village station area, the populated portions of the tract are well east of Stadium Village and would be more oriented to Prospect Park and the 29th Avenue station area.

2010 Census Tract Boundaries



POPULATION IN 2020

Population growth forecasts were based on findings from Maxfield Research's Comprehensive Housing Analysis for the University District. On page 8, Table D1 of that report, it shows that for the Prospect Park neighborhood, as defined by its formal City of Minneapolis boundaries, which includes most of the residential portion of Stadium Village, the area is forecasted to grow anywhere from 910 persons (low estimate) to 1,720 persons (high estimate) between 2010 and 2020, depending on the availability of sites for new housing development. Therefore, a similar method of using a low, medium, and high estimate was utilized in this analysis as well.

INCOME

Income is per capita and broken down by age group based on 2005-2009 ACS data, which is the most recent US Census data available on income.

Adjustments were made for the 18-24 age group (i.e., students) because their spending potential is not directly related to their income since many parents continue to financially support students, especially during their undergraduate years. Therefore, student spending was adjusted to be 137% of income. This was based on a 2006 Student Monitor survey of 1,200 students at 100 different college campuses, which found that 41% of a typical student budget consists of family assistance.

CONSUMER SPENDING

Because not all income is spent on consumer goods and services, we used the Consumer Expenditure Survey (CES) prepared by the US Department of Labor's Bureau of Labor Statistics to estimate how much income is spent on consumer goods and services broken down by consumer categories and age group. The spending categories

tracked by the CES that most closely correspond to retail and other commercial uses include the following:

- Food at Home (i.e., grocery)
- Food Away from Home (i.e., bars and restaurants)
- Alcoholic Beverages (i.e., liquor stores)
- Housekeeping Supplies
- Household Furnishings
- Apparel
- Drugs & Medical Supplies
- Entertainment (excl fees)
- Personal Care Products and Services
- Tobacco

LEAKAGE

The vast majority of a person's consumer spending typically occurs close to where they live. However, some residents regularly spend dollars outside of their immediate neighborhood because of normal life routines, such as work, recreation, travel, or other activities. The amount of spending that occurs outside of a person's neighborhood is described as "leakage." Because the Stadium Village area is a highly dense urban environment populated mostly with students, many of which do not have cars, leakage is low relative to other neighborhoods.

Unfortunately, there is no ideal data set with which to accurately measure leakage. Nonetheless, we have tried to estimate the proportion of resident spending that would likely occur outside of the immediate Stadium Village neighborhood taking into consideration the prevalence of car ownership and the overall affluence (or lack thereof) of residents. The following are assumptions regarding what proportion of resident spending would likely occur outside of the immediate neighborhood:

▪ Food at Home	5%
▪ Food Away from Home	25%
▪ Alcoholic Beverages	10%
▪ Housekeeping Supplies	0%
▪ Household Furnishings	0%
▪ Apparel	10%
▪ Drugs & Medical Supplies	15%
▪ Entertainment (excl fees)	10%
▪ Personal Care Products and Services	15%
▪ Tobacco	25%

Please keep in mind that these proportions do not necessarily reflect spending that occurs outside of the immediate neighborhood because residents are forced to shop elsewhere due to a lack of retail options. We do not account for this because we want to gauge in some manner how much retail could be supported through localized spending if the need were being met.

SEASONALITY

We've also tried to account for the impact of the seasonal school schedule on student spending. Therefore, we have modified the overall spending potential of Stadium Village residents downward by 15%. Although the standard school year is approximately nine months, we chose to limit the downward impact of spending because not all residents of the Stadium Village are students nor do all students only live in the area for nine months.

SUPPORTABLE SQUARE FOOTAGES

Total expenditures for each spending category were translated into square footages based on the Urban Land Institute's survey of shopping centers, which provides average sales amount per square foot for a variety of different retail store types. The following are the

average retail sales per square foot used in this analysis. (Some adjustments were made to account for the fact that the Stadium Village area does not always correspond directly to a typical shopping center format.)

▪ Food at Home	\$350/sf
▪ Food Away from Home	\$275/sf
▪ Alcoholic Beverages	\$325/sf
▪ Housekeeping Supplies	\$200/sf
▪ Household Furnishings	\$150/sf
▪ Apparel	\$225/sf
▪ Drugs & Medical Supplies	\$400/sf
▪ Entertainment (excl fees)	\$150/sf
▪ Personal Care Products and Services	\$300/sf
▪ Tobacco	\$1,000/sf

EMPLOYEE ASSUMPTIONS

NUMBER OF EMPLOYEES 2010

Employee counts are based on Met Council TAZ figures for districts 357, 358, 359, and 360. Districts 359 and 360 were considered to be entirely within the Stadium Village area. However, TAZ districts 357 and 358 are much more oriented toward the 29th station area. However, their eastern ends are clearly influenced by Stadium Village. Therefore, 20% of the employment figures for 357 and 358 are attributed to Stadium Village. Corroborating these figures are data from the University of Minnesota, which indicates that there are approximately 11,100 full and part-time University of Minnesota employees on the East Bank (excluding student employees).

NUMBER OF EMPLOYEES 2020

Similar to resident figures, we have estimated a low, medium, and high forecast for the number of 2020 employees. Net new employee

growth in the Stadium Village area is assumed to come from two primary sources:

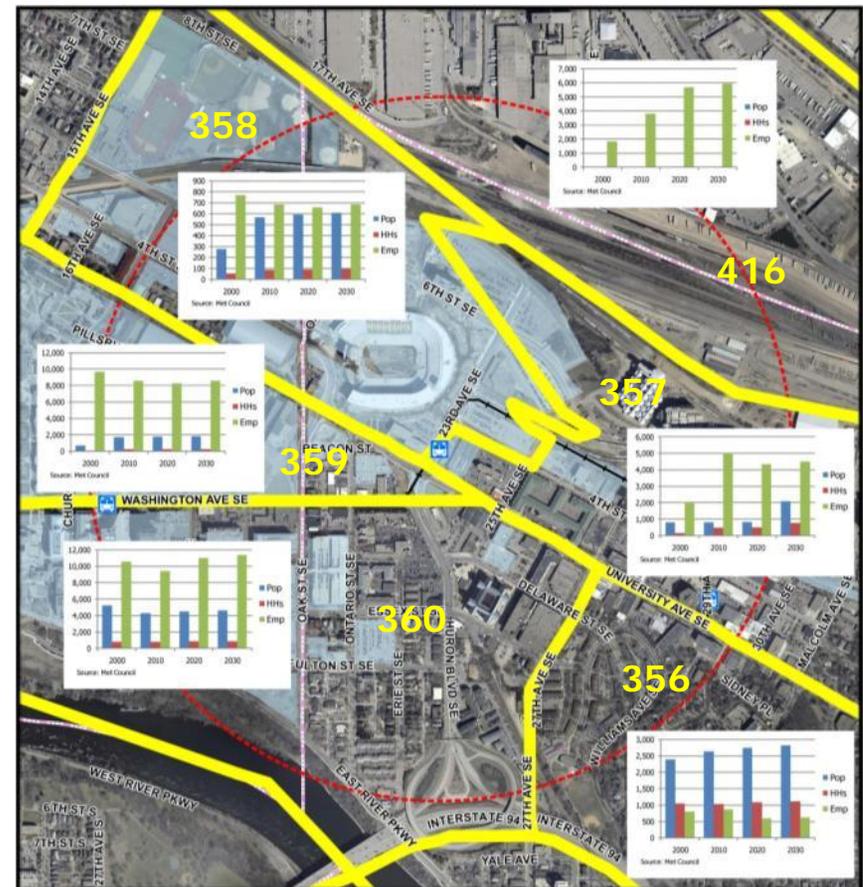
- 1) The proposed U of M Ambulatory Care Center (ACC)
- 2) Build out of the Bio-Medical Research District north and east of TCF stadium

Although no immediate plans or funding is in place for the ACC, we have assumed it will be operating by 2020. Based on an interview with Russ Williams of the University of Minnesota Medical Center, Fairview, we have assumed the ACC will result in a net growth of 400 employees.

Based on current funding and development trends, the University predicts that as many as 700 new employees may be added through 2020 in the Bio-Medical Research District. Assuming this is an upward limit to the potential growth over the next 10 years, we have adjusted it to reflect a low, medium, and high range of growth as follows:

- Low: 300 new employees
- Medium: 500 new employees
- High: 700 new employees

It should be noted, though, that these employee figures only represent a fraction of the total employment potential in the district at final build-out, which may likely take many years or even decades. According to the East Gateway District Master Plan, the Bio-Medical Research District could have a total build out of anywhere from 2,800,000 to 4,000,000 square feet of laboratory, office, and associated research space. At 500 square feet per worker, this could potentially be as many as 5,600 to 8,000 new employees.



Metropolitan Council Forecasted Growth by Traffic Analysis Zone (TAZ)



INCOME

It is assumed that income associated with employees is equal to the 7-County Metro Area average per capita income, which is \$42,159. Please note that the University is checking possible data sources on average salaries to better reflect actual per capita incomes in the area.

CONSUMER SPENDING

Similar to the resident population, consumer spending by employees is based on the most recent (2008) Consumer Expenditure Survey (CES). However, for employees much of their spending in the Stadium Village area is restricted to certain kinds of goods and services because they spend the majority of their retail and services dollar outside of the Stadium Village area. For example, we have assumed that as much as 30% of an employee's Food Away from Home budget might be spent near their workplace in Stadium Village. Below is the proportion we assumed for each consumer spending category:

▪ Food at Home	5%
▪ Food Away from Home	30%
▪ Alcoholic Beverages	15%
▪ Housekeeping Supplies	0%
▪ Household Furnishings	0%
▪ Apparel	10%
▪ Drugs & Medical Supplies	20%
▪ Entertainment (excl fees)	5%
▪ Personal Care Products and Services	10%
▪ Tobacco	30%

SEASONALITY

We assume there is no appreciable seasonality to spending by workers.

NON-RESIDENT STUDENT ASSUMPTIONS

NUMBER OF NON-RESIDENT STUDENTS IN 2010

According to the University of Minnesota, there are approximately 32,000 students whose primary area of study focuses them on the East Bank campus. However, we need to subtract out those East Bank students more focused toward Dinkytown as well as students who live in the Stadium Village area. Because there is no accurate means to quantify Dinkytown focused students versus Stadium Village focused students, we have simply halved the number to 16,000. Also, there are approximately 7,700 persons living in Tract 1049 between the ages of 18-24. We have assumed that 6,000 of these persons are students, which would live a net non-resident student population focused on Stadium Village at 10,000.

NUMBER OF NON-RESIDENTS STUDENTS IN 2020

According to the University of Minnesota, enrollment is projected to remain flat into the foreseeable future. Therefore, we have estimated that the number of non-residents students who regularly visit Stadium Village to remain unchanged in 2020.

INCOME

It is assumed that the per capita income of non-resident students is the same as resident students.

CONSUMER SPENDING

For non-resident students the proportion of spending by category is assumed as follows (please see Employee Assumptions for additional explanation):

▪ Food at Home	5%
▪ Food Away from Home	25%
▪ Alcoholic Beverages	10%
▪ Housekeeping Supplies	0%

- Household Furnishings 0%
- Apparel 10%
- Drugs & Medical Supplies 20%
- Entertainment (excl fees) 20%
- Personal Care Products and Services 10%
- Tobacco 20%

SEASONALITY

Similar to students who live in the area, we've also tried to account for the impact of the seasonal school schedule on spending. Therefore, we have modified the overall spending potential of non-resident students downward by 25% to reflect the standard nine month school year.

VISITOR ASSUMPTIONS

NUMBER OF VISITORS IN 2010

Visitors consist of persons going to the University of Minnesota medical facilities, attendees of sporting events and other cultural attractions, as well as persons conducting routine business with the University. Given the capacities of the sporting and cultural venues on campus and the frequency of events, visitorship has the potential to approach 1,000,000 persons per year or about 3,000 visitors per day averaged across an entire year. The University's medical facilities account for another 2,000 visitors per day. And, finally, we estimate that another 1,000 visitors are due to any number of reasons. This is based on University findings that suggest there are 80,000 persons who travel to the campus on a typical day. Therefore, after accounting for students, faculty, staff, and visitors of the medical facilities, we arrived at 1,000 additional visitors.

NUMBER OF VISITORS IN 2020

We have assumed that visitorship related to existing facilities will remain constant through 2020. However, two new activities in the

Stadium Village area will increase visitorship. First, the ACC will increase visitorship by 300 persons per day. Second, the LRT will also allow new visitors to come to the Stadium Village area, and these are estimated as follows:

- Low: 500 per day
- Medium: 1,000 per day
- High: 1,500 per day

INCOME

It is assumed that income associated with visitors is equal to the 7-County Metro Area average per capita income, which is \$42,159.

EXPENDITURES

For visitors the proportion of spending by category is assumed as follows (please see Employee Assumptions for additional explanation):

- Food at Home 0%
- Food Away from Home 50%
- Alcoholic Beverages 0%
- Housekeeping Supplies 0%
- Household Furnishings 0%
- Apparel 5%
- Drugs & Medical Supplies 5%
- Entertainment (excl fees) 5%
- Personal Care Products and Services 2%
- Tobacco 1%

GLOSSARY OF TERMS

Food at home: refers to the total expenditures for food at grocery stores (or other food stores) and food prepared by the consumer unit on trips. It excludes the purchase of nonfood items.

Food away from home: includes all meals (breakfast and brunch, lunch, dinner and snacks and nonalcoholic beverages) including tips at fast food, take-out, delivery, concession stands, buffet and cafeteria, at full-service restaurants, and at vending machines and mobile vendors. Also included are board (including at school), meals as pay, special catered affairs, such as weddings, bar mitzvahs, and confirmations, school lunches, and meals away from home on trips.

Alcoholic beverages: refers to off-sale liquor purchases as opposed to liquor purchases made in bars and restaurants.

Housekeeping supplies: includes laundry and cleaning supplies, cleaning and toilet tissues, stationery supplies, postage, delivery services, miscellaneous household products, and lawn and garden supplies.

Household furnishings: includes textiles, furniture, floor coverings, major appliances, small appliances, and miscellaneous household equipment, such as luggage, lamps, light fixtures, window coverings, clocks, hand and power tools, telephones and accessories, computers and computer hardware for home use, computer software and accessories for home use, calculators, business equipment for home use, floral arrangements and house plants, closet and storage items, other household decorative items, outdoor equipment, smoke alarms, and other small miscellaneous furnishings.

Apparel: includes coats, jackets, clothing, jewelry and footwear.

Drugs and medical supplies: includes nonprescription and prescription drugs, vitamins, topicals and dressings, antiseptics, bandages, cotton, first aid kits, contraceptives, syringes, ice bags, thermometers, sun lamps, vaporizers, heating pads, medical appliances (such as braces, canes, crutches, walkers, eyeglasses, and hearing aids), and rental and repair of medical equipment.

Personal care products and services: includes products for the hair, oral hygiene products, shaving needs, cosmetics and bath products, electric personal care appliances, other personal care products, and personal care services for males and females.

Entertainment (excluding fees): includes television, radio, other miscellaneous sound equipment, pets, toys, hobbies, playground equipment, and other entertainment equipment and services, such as indoor exercise equipment, bicycles, trailers, purchase and rental of motorized campers and other recreational vehicles, camping equipment, hunting and fishing equipment, sports equipment (winter, water, and other), boats, boat motors and boat trailers, rental of boats, landing and docking fees, rental and repair of sports equipment, photographic equipment and supplies (film and film processing), photographer fees, repair and rental of photo equipment, fireworks, and pinball and electronic video games.

Tobacco: includes cigarettes, cigars, snuff, loose smoking tobacco, chewing tobacco, and smoking accessories (such as cigarette or cigar holders, pipes, flints, lighters, and pipe cleaners).

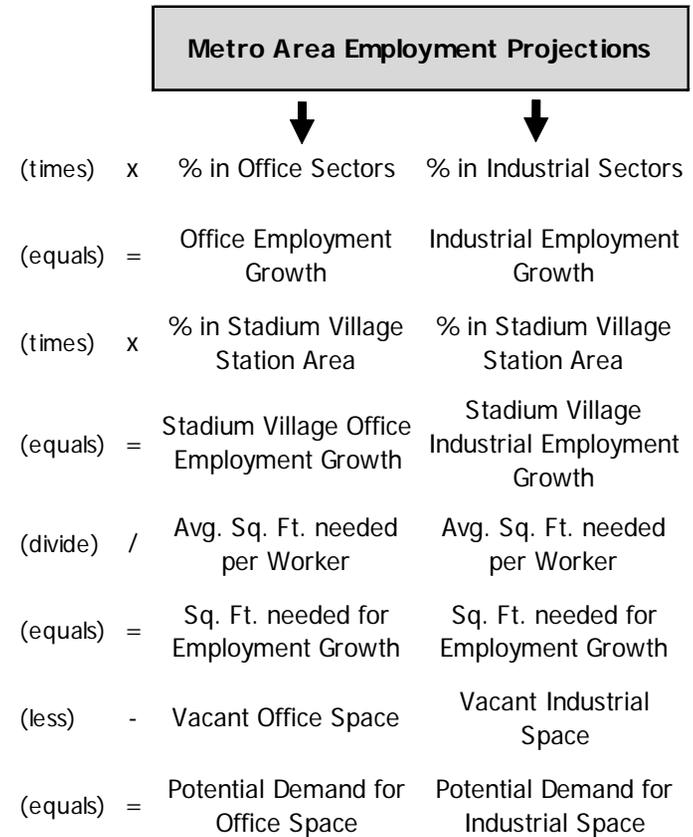
TAZ (Traffic Analysis Zone): a geographic area defined for purposes of transportation planning. It is a unit of geography that is used to measure households and employment in order to determine likely trip generations.

Appendix B

METHODOLOGY FOR CALCULATING OFFICE AND INDUSTRIAL POTENTIAL

This Appendix outlines the assumptions used to calculate future development potential for office and industrial uses in and near the Stadium Village station area. It should be noted that the office and industrial uses addressed here are focused solely on market-driven development of multi-tenant space and, therefore, do not include the expansion plans of the University of Minnesota.

Demand for office and industrial space is driven primarily by employment growth. The graphic below helps illustrate the logical steps used to go from overall employment growth to actual forecasted demand for office and industrial space. The following sections of the memo address the assumptions used in each step of this process.



METRO AREA EMPLOYMENT PROJECTIONS

We will use the most recent employment projections published by the Minnesota Department of Employment and Economic Development (DEED) for the 7-county Twin Cities Metro Area.

OFFICE AND INDUSTRIAL SECTORS

DEED breaks down employment projections according to 11 major industry sectors. These detailed industry sectors help us to translate jobs into land use categories. In 2010, Community Attributes International completed a land capacity analysis for the City of Minneapolis³. As part of the study, forecasted job growth in the City of Minneapolis for each industry sector was apportioned to office and industrial uses as follows:

Apportionment of Employment by Industry Sector and Land Use

NAICS Code	Industry Sector/Subsector	% Office	% Industrial	% Other
1011	Natural Resources and Mining	n/a	n/a	n/a
1012	Construction	30%	60%	10%
1013	Manufacturing	10%	78%	12%
1021	Trade, Transportation and Utilities	--	--	--
22	Utilities	42%	51%	7%
42	Wholesale Trade	42%	51%	7%
44	Retail Trade	22%	6%	72%
48	Transportation and Warehousing	42%	51%	7%
1022	Information	82%	7%	11%
1023	Financial Activities	82%	7%	11%
1024	Professional and Business Services	82%	7%	11%
1025	Education and Health Services	--	--	--
61	Educational Services	30%	20%	50%
62	Health Care and Social Assistance	30%	0%	80%
1026	Leisure and Hospitality	0%	0%	100%
1027	Other Services	82%	7%	11%
1028	Public Administration	30%	20%	50%

In order to help interpret the above chart, take as an example the Construction sector. According to DEED, the Construction sector in

³ Land Capacity Analysis June 2010, prepared for the City of Minneapolis by Community Attributes International
http://www.ci.minneapolis.mn.us/cped/docs/Land_Capacity_Analysis.pdf

the Twin Cities metro area is projected to have a net increase of about 9,300 jobs between 2010 and 2020. Using the chart, of these 9,300 jobs, 30% or about 2,800 jobs will be in office environments, 60% or 5,600 jobs will be in industrial environments, and the remaining 10% of jobs will be in all other environments.

STADIUM VILLAGE CAPTURE RATE OF EMPLOYMENT GROWTH

The ability of the Stadium Village station area to capture new office and industrial development is dependent on a number of factors such as availability of land, willing buyers and sellers of property, marketing of the area to increase awareness, to name a few. Nonetheless, regional growth pressure is an important component to local demand and using a capture rate based on a reasonable set of assumptions can provide a quantifiable estimate of demand.

The following chart displays a low, medium, and high Stadium Village capture rate of new metro area office and industrial jobs.

	Office	Industrial
Low	0.2%	0.0%
Medium	0.5%	0.1%
High	0.8%	0.3%

The office capture rates are based on a study prepared for the City of Denver, Colorado, which estimated that the transit stations located along Denver's "central corridor" could each capture 0.5% of all regional office development over the next 20 years⁴.

⁴ Transit Oriented Development Economic Analysis and Market Study January 2008, prepared for the City of Denver by Basile Bauman Prost Cole & Associates
http://www.denvergov.org/Portals/193/documents/40th%20and%2040th/Regional_Demand_Analysis_and_TOD_Market_Analysis.pdf

This capture rate is further informed by findings in a study prepared by the Center for Transit Oriented Development, which estimated that the stations along the Hiawatha LRT Line captured approximately 940,000 square feet of commercial development between 2003 and 2009⁵. Although the study did not report how much of this commercial space was for offices, it did note that the majority of all development along the Hiawatha corridor (72%) was captured in Downtown Minneapolis, which is the region's primary office district.

Assuming that 72% of commercial development along the Hiawatha Corridor was office space, due to the dominance of Downtown Minneapolis, this would translate to approximately 680,000 square feet of office development. Therefore, based on metro-wide office development during this time period, which is estimated at approximately 15,000,000 square feet⁶, this translates to a corridor-wide capture rate of 4.5% or roughly 0.3% per station area.

The industrial capture rates are based on the fact that new industrial development typically does not occur within walking distance of transit stations because the activity level generated by the transit use allows other more intense users to outbid industrial users. This is corroborated by findings in the Hiawatha LRT study, noted previously, which indicate there was no industrial development that occurred within any of the station areas between 2003 and 2009 even though, metro-wide, over 23,000,000 square feet of industrial space was constructed during this time.

⁵ Rails to Real Estate: Development Patterns along Three New Transit Lines March 2011, prepared by the Center for Transit Oriented Development
http://ctod.org/portal/sites/default/files/CTOD_R2R_Final_20110321.pdf

⁶ Metropolitan Council: Metro Stats December 2010
http://stats.metro.state.mn.us/stats/pdf/CommercialIndustrialPublic_MS2009.pdf

Nonetheless, the Stadium Village station area has a legacy of industrial uses and several industrial properties remain in the area. Furthermore, the Southeast Minneapolis Industrial area (SEMI) is situated just to the north of the station area and continues to have a major influence on it. Although we do not anticipate any industrial development in the station area because the proximity to the University will generate substantial activity, we want to be able to estimate how much potential demand could be generated due to employment growth should market factors shift in a way as to benefit industrial development in the area. For these reasons, we have assumed a low capture rate of 0%, a medium capture rate of 0.1%, and a high capture rate of 0.3%.

AVERAGE SQUARE FEET PER WORKER

Office and industrial jobs are converted into space based on the average amount of square footage needed per worker. For office space, this amount had been historically about 250 square feet per worker. However, increased telecommuting, fiscal restraint, and changes in workplace design have pushed this figure down to 150 square feet per worker.

For industrial space, the figure is much more fluid because industrial uses cover a wide spectrum, from manufacturing, which can sometimes have a very dense work environment, to warehousing, which can sometimes require only a few workers for many thousands of square feet of space. In the case of any industrial uses near Stadium Village, we would assume a relatively dense work environment and estimate the ratio at 500 square feet per worker.

VACANT OFFICE AND INDUSTRIAL SPACE

We will utilize the CoStar database of commercial real estate information to determine the amount of vacant office and industrial space in the study area.