
Appendix B Market Conditions and Development Outlooks



Appendix B Market Conditions and Development Outlooks

<u>Page</u>	
B.1	I. Regional Economic Context
	A. Regional Economy
	B. Demographic Issues
B.4	II. Market Potential
	A. Retail Market Overview
	B. Residential Market Overview
	C. Senior Housing
	D. Summary of Market Findings
B.16	III. Development Solutions
	A. Public Market
	B. CoHousing Concepts
	C. Entertainment Concepts



I. REGIONAL ECONOMIC CONTEXT

The following presents an overview of the regional economic context framing potential opportunities for development, investment, and business in the general region as well as the Corcoran community.

A. REGIONAL ECONOMY

1. In General

The Twin Cities metropolitan area features a diverse economic base and has shown consistent patterns of strong growth. As shown in Exhibit 1, the area's gross product grew at rates of five to seven percent annually during the late 1990s, while employment increased at two to three percent each year. Over the next five years, growth in employment and gross product are expected to continue, but at lower rates as the national economy slows. Despite the current economic slowdown, economic growth is expected to remain positive for the near-term future.

Most of the metropolitan area's economic growth, it should be noted, has been internally derived, driven by growth among the region's existing businesses rather than by the in-migration of non-local corporations relocating to the Twin Cities. As a result, economic indicators have not been skewed by major corporate relocations, and reflect growth among a more stable economic base.

2. Unemployment

Recent unemployment rates ranging from two to three percent reflect a tight labor market. While unemployment has increased slightly to 3.1 percent, this figure remains well below corresponding Midwestern (4.3 percent) and national (4.6 percent) indicators. More important, the rising unemployment rate does not reflect declining employment so much as it reflects ongoing growth in the labor market, fueled in part by increasing migration to the area. Over the next five years, migration is expected to decline, and unemployment is expected to remain within the recent range of 2.8 to 3.2 percent.

3. Services Sectors

	1996	1997	1998	1999	2000		2001	2002	2003	2004	2005
Gross Metro Product, CSE	1804	1977	1338	2112	1273		1500	1340	1380	1433	1480
%Change	5.2	9.2	3.5	4.7	3.4		1.6	2.7	2.6	2.8	3.2
Total Employment (#)	1,581.9	1,615.9	1,657.3	1,781.8	1,764.3		1,766.9	1,796.1	1,816.0	1,837.7	1,868.2
%Change	2.8	2.1	2.6	2.6	2.5		1.8	1.7	1.7	1.2	1.7
Unemployment Rate	3.1	2.5	2.8	2.2	2.8		2.6	3.1	3.2	3.2	3.2
Personal Income Growth	7.0	7.2	8.2	6.0	6.8		5.5	4.8	5.4	4.8	4.6
Population (#)	2,798.8	2,833.5	2,876.8	2,924.3	2,965.8		3,003.8	3,037.7	3,068.2	3,098.9	3,128.9
Existing Home Price (\$/sq)	1168	120.2	127.3	120.2	140.4		142.4	145.9	150.0	155.2	159.7
Net Migration (#)	8.3	36.3	8.3	25.8	20.6		12.8	7.6	6.0	2.9	0.8
Personal Receptions	11,886	12,741	11,911	9,983	9,857		30,137	11,139	11,918	12,318	12,768

Source: *Economic.com*

Exhibit 1
Selected Economic Indicators
Twin Cities Metropolitan Area: 1996-2005



The Twin Cities economy rests upon a diverse employment base. As shown in the exhibit below, leading employment sectors include a broad range of services, manufacturing and retail industries.

The services sector comprises the largest and fastest-growing industry sector in the Minneapolis - St. Paul MSA. Services have grown at an annualized rate of 3.4 percent, adding nearly 166,000 jobs between 1990 and 2001. In comparison, overall metropolitan area employment has grown at an average annual rate of 2.2 percent during this period.

Within the services sector, job growth has been strongest in business services, which also accounts for the largest portion of employment in services with over 150,000 jobs. Business services encompasses fields such as advertising, computer programming, graphic design, secretarial, equipment rental, employment agencies, security, telemarketing and other support services. Employment in business services has grown by 6.2 percent annually since 1990, and has contributed over 74,000 new jobs to the Twin Cities area. Business services comprises 45 percent of new jobs in the service sector, and has accounted for roughly 20 percent of total employment gains since 1990.

Health services comprises the second largest component of employment of the services sector, with 126,800 jobs, or 24 percent of all jobs in services. Since 1990, employment in health care has increased at an annual rate of 2.7 percent per year. Engineering and social services, while comprising a smaller portion of total employment, have grown steadily at annualized rates of 4.3 percent and 3.8 percent respectively, and contributed nearly 3,000 new jobs since 1990.

4. Other Sectors

After services, retail trade and manufacturing are the next-largest employment sectors in the Twin Cities. These have not grown as rapidly as services; employment in these sectors has increased by 1.9 percent and 0.4 percent per year, respectively. Retail trade has contributed over 57,000 new jobs to the Twin Cities area, comprising 15 percent of new employment. Despite fairly steady growth in the retail sector, it has been eclipsed by the services sector, as its share of total employment actually declined slightly from 18 percent to just over 17 percent.

SIC #	2-Digit Sector	Industry	Employees (000s)
531	Retail	Department Stores	40.1
737	Services	Computer/data processing services	39.9
801	Services	Medical offices/diagnos	30.3
738	Services	Business Services	29.1
504	Retail	Professional/Commercial Equipment	21.5
632	Finance/Ins/Re. Estate	Medical Services/health insurance	17.1
832	Services	Individual and family services	16.4
267	Manufacturing	Paper Products	16.3
275	Manufacturing	Commercial printing	16.2
382	Manufacturing	Measuring/controlling devices	16.2
864	Services	Civic, social, fraternal associations	15.7
384	Manufacturing	Medical instruments & supplies	15.3
452	Transp/Comm/Util.	Air Transportation, nonscheduled	15.1
596	Retail	Nonstore retailers	14.7
621	Finance/Ins/Re. Estate	Security brokers and dealers	14.5

Source: Bureau of Labor Statistics, Economy.com

Exhibit 2
Leading Industries in the Twin Cities Metropolitan Area: 2000

	1990	2001	Total Change	Avg Ann. %
Construction	50,537	79,133	28,596	4.2%
Manufacturing	265,766	277,791	12,025	0.4%
Transp/Comm/Util	78,863	98,030	19,167	2.0%
Wholesale Trade	86,054	106,709	20,655	2.0%
Retail Trade	250,457	307,498	57,041	1.9%
F.I.R.E	98,326	129,158	30,832	2.5%
Services	369,532	535,323	165,791	3.4%
Government	190,969	234,991	44,022	1.9%
Total	1,390,504	1,768,653	378,149	2.2%

Source: Economy.com; Botsa/REA, Inc

Exhibit 3
Twin Cities Employment by Industry Sector



Manufacturing still represents a significant part of the economy in the Twin Cities, although it has declined in importance in the past decade. Due to modest growth, employment in manufacturing has declined to 15.7 percent of total employment in 2001, whereas it represented over 19 percent in 1990. Growth in employment in manufacturing comprised only about 3 percent of total job growth.

B. DEMOGRAPHIC ISSUES

The Corcoran neighborhood population increased in the 1990s, growing by 16.3 percent. The white population sustained a decline of 17.3 percent, offset by substantial increases in the Hispanic/Latino (796 persons, an increase of 788 percent), African/American (367 persons, an increase of 120 percent) and Asian/Pacific Islander (79 persons, an increase of 70.5 percent) populations.

In the nearby neighborhoods and the City of Minneapolis, overall population increased in the 1990s, by 7 percent and 3.9 percent, respectively. Consistent with the Corcoran neighborhood, shifting characteristics involve significant losses among white/Caucasians, offset by substantial increases among Hispanic/Latinos, African/American, and Asians/Pacific Islanders.

II. MARKET POTENTIAL

The following sections present discussions of the potential for development in the retail and residential development sectors, which the community has targeted as potentially desirable.

A. RETAIL MARKET OVERVIEW

1. General Market Conditions

The Hi-Lake area dominates the retail market in the Corcoran neighborhood. The retail market in this area comprises three distinct retail segments. These include:

The Hi-Lake Shopping Center, located east of the Hiawatha Avenue. This

	1990	2001	Total Change	Avg.Ann.%
Business services	78,829	152,929	74,100	6.2%
Health services	94,462	136,798	42,336	2.7%
Social services	30,191	47,980	17,789	4.3%
Engineering & management services	27,083	40,812	13,729	3.8%
Membership Organizations	28,102	32,348	4,246	1.3%
Educational Services	17,889	23,416	5,527	2.5%
Personal services	17,464	19,362	1,898	0.9%
Auto repair, services, and parking	13,887	18,416	4,529	2.0%
Amusement & recreation services	17,601	16,083	-1,518	-0.8%
Hotels and other lodging places	15,370	14,454	-916	-0.6%
Legal Services	12,654	13,754	1,100	0.8%
Motion pictures	4,124	11,707	7,583	9.9%
Misc. Repair Services	3,209	3,603	394	1.1%
Other	923	2,891	1,968	10.9%
Museums, Botanical, Zoological Gardens	1,030	1,418	388	2.8%
Total	362,888	525,971	163,083	3.4%

Source: Econwarp.com

Exhibit 4 ~ Twin Cities Service Industry Sectors

	2001		2000		Change	
	Number	Percent	Number	Percent	Number	Percent
MINNEAPOLIS						
Population	385,255	308.8%	383,418	308.0%	18,235	3.9%
White	285,957	74.4%	349,358	85.1%	-63,251	-17.8%
Hispanic/Latino	47,848	12.0%	68,920	18.0%	20,970	40.2%
Asian/Pacific	15,723	4.3%	20,744	5.2%	5,021	31.8%
Hispanic American	12,353	3.3%	6,575	2.3%	5,778	87.7%
Hispanic/Lat.	7,988	2.1%	29,175	7.8%	21,205	269.3%
Other 2+ Race	2,418	0.6%	3,217	0.8%	799	32.9%
CORCORAN						
Population	3,633	308.8%	4,205	308.0%	593	16.3%
White	2,927	80.5%	2,205	52.9%	722	32.8%
Hispanic/Latino	202	5.4%	692	15.9%	490	120.3%
Asian/Pacific	112	3.1%	181	4.2%	79	70.5%
Hispanic American	248	6.6%	185	4.8%	63	34.1%
Hispanic/Lat.	301	2.8%	897	21.2%	596	198.1%
Other 2+ Race	51	1.4%	30	0.8%	21	41.2%
ADJACENT NEIGHBORHOODS						
Population	54,448	308.8%	57,065	308.0%	2,617	4.3%
White	38,208	70.0%	32,289	56.0%	5,919	17.4%
Hispanic/Latino	6,548	12.0%	11,130	19.2%	4,582	70.0%
Asian/Pacific	2,588	4.4%	2,585	4.3%	3	0.1%
Hispanic American	1,637	18.4%	5,777	6.8%	4,140	251.3%
Hispanic/Lat.	1,523	2.8%	6,081	14.0%	4,558	300.0%
Other 2+ Race	671	1.2%	14	0.0%	657	97.9%

U Includes Longfellow, Cooper, Howe, Phillips, Franklin Park, Forest and Washburn neighborhoods.

Source: U.S. Census Bureau, City of Minneapolis.

Exhibit 5 ~ Ethnic and Racial Trends



center is characterized as a neighborhood center, with roughly 135,000 square feet. Tenants include a combination of discounters, second hand, independent and chain retailers, such as Savers, True Value Hardware, Franklin Fabrics, and the Reuse Center. While occupancies are typically high, many tenants seek space in this center based on its low lease rates, which are reported as low as \$4 per square foot on a triple net basis. In comparison, high-end retail space in the Twin Cities would typically rent for \$15 to \$25 per square foot.

A concentration of destination retailers including Cub Foods, Rainbow, Target, and the Minnehaha Mall, all located just west of Hiawatha Avenue. According to local retailers and property managers, these stores collectively comprise a regional retail destination area, drawing shoppers from a broad area encompassing all of SE Minneapolis as well as parts of St. Paul's Merriam Park area.

The Minnehaha Mall contains 108,000 square feet of leasable retail space. This space has recently been renovated and re-leased, and maintains full occupancy. Tenants include Petters, Radio Shack, Grand Buffet, Only Deals, Fashion Bug, and the Minneapolis Technical Academy. Rents in the Minnehaha Mall range from \$8-\$10 per square foot on a triple net basis.

Unofficial estimates indicate that all of the area's anchor stores achieve high gross sales volumes, exceeding \$500 per square foot in the grocery stores, and \$350 per square foot at the Target. Other tenants in this area include small restaurants (e.g., Asian, fast food), personal care providers (eye care, hair care, etc.), telecommunications providers, etc. Applying rough benchmarks for acceptable occupancy costs, these figures indicate that these businesses could pay relatively high rents, ranging from roughly \$30 to \$60 per square foot, and these estimates have been corroborated by various real estate sources. Rents in this approximate range would provide attractive income streams for prospective developers and property managers.

Small, independent retailers along Lake Street. These include liquor stores, service providers engaged in printing, photography, health care-related services (e.g., chiropractor), secondhand goods, auto parts, and minority-owned and -operated restaurants and food stores. Rental data regarding these spaces are anecdotal and imprecise, but rental rates are low, generally assumed to be comparable to those paid in the Hi-Lake Shopping center.

2. Trade Area and Niches

Retail spending drives retail development. In the Study Area, new retail development will have an opportunity to capture additional retail spending, arising as a result of the area's potential to:

- Identify areas of pent-up or unserved demand within its current market area; and/or
- Expand its market trade area.

The following discussion identifies the potential, based on these areas of potential, to generate new retail opportunities in the Study Area.

a. Market Trade Area

Interviews with local business owners and commercial Realtors and property managers indicate that Hi-Lake area retailers draw shoppers from throughout southeast Minneapolis as well as parts of Merriam Park in St. Paul. In defining a market trade area, this analysis delineates the area within Highway I-35 on the west, 62 on the south, I-94 on the north, and the Mississippi River on the east. This definition omits the St. Paul neighborhoods that furnish shoppers to the Hi-Lake area, because potential retail developments in locations such as Merriam Park, Midway and Grand Avenue would be able to compete with future Hi-Lake retailers. This market area definition also omits the residents in and around downtown Minneapolis, for the upscale shoppers in this growing market enjoy convenient access not only to downtown retailers but to other nearby areas such as Northeast Minneapolis and the Uptown area.

b. Inflow/Outflow Analysis: Pent-up Demand

Within the market trade area, Exhibit 6 presents an analysis of the relationships between household retail spending and retail store sales. This "inflow/outflow" analysis measures the spending potential of resident households against the retail sales achieved in the area's stores.

In this analysis, a market "capture" equal to 100 percent indicates that the community's retail spending is equivalent to the sales achieved at the community's

	Market Area	City of Minneapolis
Local Resident Retail Spending	\$1,130.1	\$4,163.5
Local Retail Sales	\$501.6	\$4,165.9
Market Capture	44.4%	100.1%

Source: Claritas, Inc.; AGS; Bonn/REA, Inc.

Exhibit 6
Non-Auto Retail Spending vs. Retail Sales (\$millions)



retail stores. Where the capture rate exceeds 100 percent, retail sales exceed spending potential, thereby indicating that sales to nonresidents - or inflow - exceeds the outflow, or local resident expenditures occurring outside the area. In other words, the community's stores capture retail sales in excess of the demand generated by the community's resident population. Conversely, where net capture falls below 100 percent, the community suffers a net "outflow," indicating that local residents' outside spending - the outflow -- exceeds the "inflow" from non-local shoppers.

For general non-automobile-related retail goods and services, the market area sustains a substantial spending outflow, with a market capture of just 44 percent. This indicates a significant underperformance. While residential suburban neighborhoods might achieve a market capture of this magnitude, areas featuring destination commercial areas typically achieve net inflows. In comparison, the overall City of Minneapolis achieves a 100 percent capture rate, indicating that the City's retailers essentially serve its residents' retail spending needs (central cities typically achieve higher capture rates, but the Minneapolis's relatively modest performance may be partly attributable to the presence of the Mall of America, which captures significant tourist expenditures, and to Saint Paul, which shares Minneapolis's role as a central business center).

There is no "benchmark" capture rate for Hi-Lake area retailers, but general experience with commercial nodes such as Hi-Lake suggest that area should be able to achieve a capture rate between 75 to 100 percent, and this is corroborated by the strong sales performances at the area's anchor stores. Even if the capture rate increased to just 50 percent, this would increase retail spending at Hi-Lake by \$63.45 million, which - given healthy gross sales volumes of \$300 per square foot - would support an additional 211,500 square feet of new retail space. Overall, these figures provide an indication of strong potential for additional retail space in the Hi-Lake area.

c. Potential for Market Area Expansion

In addition to the preceding finding of unserved demand, the Study Area may be able to expand the market trade area delineated above. Transportation improvements including the expansion of Hiawatha Avenue and the LRT station will improve the area's access to households living to the north and south of the market trade area. In addition, the potential development of new housing, public

improvements, and/or new destinations in and around the Study Area would further enhance the area's ability to attract traffic and retail spending from outside of the market trade area.

d. Niche Analyses

Given the strong potential for new retail development, the next question involves the character of retailers that would most likely find market support in the area. As discussed previously, various interviews and reports have identified market opportunities for various businesses providing goods and services such as hardware, secondhand goods, drugs, restaurants, personal care services, etc. As a supplement to this evidence, the following exhibits present quantitative analyses of the potential in various specialty retail niches.

Groceries and Specialty Grocery Items: Exhibit 7 shows an inflow/outflow analysis for grocery stores spending and sales. Typically, communities with grocery stores should be able to achieve 100 percent capture rates, for households tend to do their grocery shopping within their local surroundings. In the City of Minneapolis, for instance, grocery retailers capture 103 percent of the city's household grocery spending.

In the market area, however, existing grocery stores capture only 75 percent of household grocery expenditures. This suggests that the market offers additional opportunity, and the strong performances of the Rainbow and Cub Foods stores supports this finding.

Within the overall grocery niche, the neighborhood's increasingly diverse population may seek various types of specialty foods that may not be carried by most mainstream grocers. Such foods may include items that may be common in ethnic (Asian, Hispanic, African-American) cuisines but regarded as exotic, novelty items for most mainstream grocery chains. Also, while specialty stores providing increasingly diverse selections of coffee, baked goods, and produce have begun to appear in more "upscale" portions of the Twin Cities, the market area households are also likely to support such stores.

Exhibit 8 shows that, while specialty grocery shops account for roughly one-third of the City's grocery sales, in the market area such stores account for only

	Market Area	City of Minneapolis
Local Spending at Food/Grocery Stores	\$212.6	\$732.0
Sales at Food/Grocery Stores	\$159.7	\$752.1
Market Capture	75.1%	102.7%

Source: Claritas, Inc.; AGS; Bonn/REA, Inc.

Exhibit 7
Grocery Spending vs. Grocery Sales (\$millions)



15 percent of total grocery sales. This indicates that the local Hi-Lake area may support not only a higher volume of grocery stores, but a greater variety of specialty shops as well.

Eating and Drinking: Exhibit 9 presents inflow/outflow data for eating and drinking establishments (restaurants and taverns) in the market area. As in Exhibits 6 and 7, the exhibit shows a substantial spending outflow - indicated by a 48 percent capture rate -- in this category.

Unlike Exhibits 6 and 7, however, Exhibit 7 breaks its figures down into "core" and "secondary" market area segments. The "core" segment comprises census tracts 74, 75, 87, and 88, which (see above) essentially comprise the blocks immediately surrounding the Hiawatha/Lake Street intersection.

The exhibit shows that restaurant/tavern sales in the core area achieve a 109 percent capture rate. While this indicates a positive inflow, this core area's corresponding capture rates (not shown in the preceding tables) for groceries and overall non-auto retail items are 358 percent and 190 percent, respectively. Thus, while this core area serves as a retail destination for some retail functions, the area's service area barely extends beyond the immediate surroundings. Given the retail traffic attracted to the area, the Hi-Lake market area offers the potential to attract significantly higher restaurant/tavern sales, and thereby achieve higher market capture rates.

e. Market Interest

A spokesman for the Minnehaha Mall ownership group states that big box retail tenants have expressed interest in the area, and identifies additional tenants could fill unserved niches for goods and services such as flowers, apparel, pizza, electronic products, and others. In addition, a recent study prepared by Maxfield Research identifies niches for small restaurants, drugstores, discounters, fabrics, apparel, hardware stores, etc.

	Market Area		City of Minneapolis	
	Sales	Percent	Sales	Percent
<u>Grocery Stores</u>	\$135.9	85.1%	\$502.3	66.8%
<u>Specialty Food Stores</u>	\$23.8	14.9%	\$249.8	33.2%
Meat/Fish	\$2.9	1.8%	\$6.7	0.9%
Fruit/Vegetable	\$0.0	0.0%	\$25.5	3.4%
Candy/Nut/Confection	\$0.6	0.4%	\$4.9	0.7%
Dairy Products	\$0.2	0.1%	\$5.6	0.7%
Baked Goods	\$6.1	3.8%	\$34.1	4.5%
Miscellaneous	\$14.0	8.8%	\$173.0	23.0%
Total Food Stores	\$159.7	100.0%	\$752.1	100.0%

Source: Claritas, Inc.; Bontz/REA, Inc.
Exhibit 8
Supermarket Grocery vs. Specialty Food Sales (\$millions)

	Core Area	Market Area Secondary	Combined	Minneapolis
Local Spending at Eating/Drinking Establishments	\$16.9	\$175.0	\$191.9	\$709.1
Sales at Eating/Drinking Establishments	\$18.4	\$74.1	\$92.5	\$837.4
Market Capture	109.8%	42.4%	48.2%	118.1%

Source: Claritas, Inc.; AGI; AmeriEMA, Inc.
Exhibit 9
Eating and Drinking Spending vs. Sales (\$millions)



B. RESIDENTIAL MARKET OVERVIEW

1. Demographic Trends

Household growth provides the key indicator in residential market analysis. In the 1990s, most estimates in the Twin Cities and throughout the United States have indicated that urban populations have been declining, with households declining at lower rates. Recently released data from the 2000 Census, however, indicate that in fact, in the City of Minneapolis both population and households have increased, with population increasing by 14,000 and households by nearly 1,700.

While these figures do not indicate rapid growth, they do indicate that the trend is positive rather than negative. Moreover, a closer examination indicates that the number of married couple families has declined even as households have increased. This indicates that, while traditional family units have in fact decreased in Minneapolis, smaller households - including singles, divorcees, and other non-married households - have represented a growing proportion of the housing market in Minneapolis. This general trend, portrayed in Exhibit 10, indicates that new housing development may be required to serve a growing demand for smaller dwelling units.

2. Market Conditions

The prevailing housing market in the Corcoran community is characterized by the following salient features:

Built-Out Market: the Corcoran neighborhood has been fully developed and has featured little significant new residential construction in recent decades.

Rising Costs: as in the entire Twin Cities market, housing occupancy costs have risen rapidly in recent years. For rental housing, local industry experts report that rent levels have escalated at 6 to 7 percent per year in recent years. Some developers and property managers, however, cite higher increases, ranging from 9 to 12 percent in recent years.

	1990	2000	Change	
			Number	Avg. Ann. %
Population	368,383	382,618	14,235	0.4%
Households	160,682	162,352	1,670	0.1%
Married Couple Families	51,984	47,049	-4,935	-1.0%
As Percent of Households	32.4%	29.0%		

Source: U.S. Census Bureau.

Exhibit 10
Population and Households
City of Minneapolis: 1990-2000



Home prices have increased even more rapidly; one realtor reports that home prices in the Corcoran area have doubled within the past eight years, increasing at a rate of roughly 9 percent per year. Home buyers have been mostly young, first-time buyers.

One apartment management company reports that in the Corcoran area, typical rents range from \$575 to \$600 per month for one-bedroom units, and \$750 to \$800 for two-bedroom units. This source indicates that rent increases have slowed in real terms, with much of the recent rent increases attributable to rising utility costs in apartments where rent payments include utilities.

High Apartment Occupancies: Apartment vacancy rates in the Twin Cities have been reported within a range from 1 percent to 2 percent in recent years. This is well below a normal healthy market vacancy rate of 5 to 7 percent. A local apartment management company reports that its inventory (which includes roughly 25 buildings) is virtually 100 percent occupied.

Construction Focusing on High-End Segments and Downtown Locations: In recent years, residential developers have responded to the strong housing market conditions in the Twin Cities. In Minneapolis, however, recently built homes and apartments focus primarily on the upper cost tiers of the market. With some exceptions, recent projects in Minneapolis have been located in the warehouse district or along the riverfront. Townhouses or condominiums in renovated industrial buildings have typically been priced above \$350,000. Buyers have been primarily upscale empty nesters and retirees, and these projects have achieved absorption rates of 10 or more units per month. One developer states that prices have been increasing at the rapid rate of 1.5 percent per month, with continuing demand fueled by convenient proximity to downtown Minneapolis, and its urban retail and entertainment-related amenities.

Apartment developments have also focused on the high end of the market. At the East Village project in Elliott Park, rents have approximated \$830 and \$1,055 for one- and two-bedroom units. At these rents, units have achieved high absorption rates of more than 14 per month. At the Heritage Landing project in the Warehouse District, management reports virtually full occupancies almost from opening, with rents approximating \$1.45 per square foot for one-bedroom (roughly \$900

	1991	2001	2002	2003	2004	2005	Avg. Annual Increase
Existing Home Price, Metro Area (\$000)	\$106,200	\$144,800	\$138,200	\$127,400	\$136,200	NA	6.8%
Avg. 1st Qtr. Single Family Home Price: Minneapolis *							
Minneapolis			\$207,120	\$209,425	\$139,447	\$136,000	9.8%
Longfellow			\$88,796	\$85,525	\$107,965	\$109,636	14.7%
Powelton			\$64,839	\$71,615	\$70,960	\$92,377	13.7%
Halems			\$93,239	\$93,128	\$111,587	\$136,525	12.8%
Southeast			\$38,890	\$38,814	\$170,380	\$190,675	7.2%
Avg. Apartment Rent: Minneapolis							
1BR			\$476	\$382	\$372	\$632	9.3%
2BR			\$674	\$764	\$772	\$888	9.6%

* Fullerton neighborhood not shown because the community did not report a sufficient number of home sales.
Source: City of Minneapolis Planning Department

Exhibit 11
Housing Occupancy Costs:
City of Minneapolis and Selected Communities: 1995-2000



to \$1,150) and two-bedroom (roughly \$1,200 to \$1,500) units. Renters in these projects encompass all age ranges and move from locations throughout the metropolitan area.

C. SENIOR HOUSING

1. Market Demand

Recent estimates provided by Claritas, Inc., indicate that the market area in Southeast Minneapolis contains roughly 43,000 senior households. In this same market area, the Danebo, Becketwood and Nokomis Square facilities offer the only market-rate senior housing alternatives. These account for fewer than 450 dwelling units, and of these, only the 204 units at Nokomis Square are regarded as appropriate for the local resident population.

Becketwood's prices are too high for most of the local residents, and Becketwood staff reports that its resident population includes few if any residents from the Corcoran neighborhood. The Danebo facility, while more affordable, offers a somewhat outdated model for senior care; dwelling units do not include their own bathrooms, and residents are expected to take all meals in the community facility. The remaining alternative is the Nokomis Square cooperative, which is fully occupied with an extensive waiting list. The Augustana apartments offer one other alternative, but this facility occupies a more urban Elliot Park location that does not appeal to most Corcoran residents. Overall, the market has not provided senior housing options that would appeal to the bulk of the market-rate demand in Corcoran and southeast Minneapolis.

A rough estimate of demand for independent senior housing is shown in Exhibit 12 at right.

2. Development Constraints

Senior housing developers consider many of the same factors as general residential developers. Costs, the area image, and the presence of alternative development locations constrain the community's senior housing development prospects.

75+ Households	4,933
Market-Rate Income Eligible	1,872
Market Capacity	
@ 15% Penetration	281
@ 20% Penetration	374
Existing Inventory (Effective) *	145
Additional Opportunity	
@ 15% Penetration	136
@ 20% Penetration	230

* Actual inventory includes existing market-rate units at Becketwood (214) and Danebo (28). Effective inventory includes existing market-rate units at Danebo and 20 percent of the inventory at Augustana and Nokomis.

Exhibit 12
Independent Senior Housing Demand



3. Unserved Niches

The senior housing market comprises various niches, defined by age groups and levels of independence. Among these various niches, the current inventory in Corcoran's immediate surroundings is limited to independent living facilities. Demand for these facilities is driven by the desire for greater security, sense of community, and reduced maintenance responsibilities. Many independent seniors seek to satisfy these needs in rental apartment, condominium or coop living arrangements.

Seniors with reduced ability to live independently seek assisted living facilities. Need, rather than preference, drives demand for these facilities. Typically, residents require assistance in one to three activities of daily living.

Alternative housing products for these various niches include:

- Continuing Care Retirement Communities (CCRCs), which offer multiple tiers living arrangements - including independent living cottages or apartments, assisted living units, and skilled nursing units -- featuring progressively higher levels of care to accommodate seniors as their ages and needs change.
- Limited Equity Coops: This independent living model is common in the Twin Cities, and is featured at nearby coops such as Nokomis Square. Under this concept, coop residents purchase shares of the coop, which comprise shares of a master mortgage for the facility. Such shares can be reconveyed, but the share's resale value is calculated as the resident's initial investment plus an annualized maximum appreciation. Limited equity coops thus ensure that real estate market fluctuations will not escalate share prices beyond the affordable range of the community's initial market.
- Cohousing: The preceding discussion sheet presents a discussion of cohousing concepts. This development concept can be applied to include seniors (either exclusively or as targeted components of overall tenant mixes), and can thereby serve many of the needs of many active seniors seeking independent housing options.

4. Local Development Opportunities and Constraints

a. Constraints

Despite the strength of the Twin Cities' residential development market, new development prospects for the Hi-Lake area face substantial barriers. These include:

- Short-term Developer Outlook on Hi-Lake: In the near-term future, the development community will continue to seek opportunities in the high price tiers of the market. At this time, these opportunities will be located close to downtown, in locations such as the Warehouse District, the Riverfront, Loring Park and Elliott Park. While the light rail line and the ensuing development of higher end features may attract residential developers in the future, in the near-term future the Corcoran neighborhood does not offer the sufficient attributes to attract substantial developer interest.
- Cost Constraints: Developers cite high costs as major barriers to development in Minneapolis. Desirable sites in Minneapolis may cost nearly 60 to 100 percent more than desirable suburban land parcels. In addition, union labor in the City of Minneapolis increase construction costs by as much as 50 percent over comparable suburban costs.

Under these constraints, the upper tiers of the market may attract residential developers to locations near downtown, but developers will serve the moderate and lower-priced market tiers in outlying locations, where land costs, construction costs, and tax burdens will be substantially lower.

b. Likely Development Opportunities

Notwithstanding the short-term barriers to development, the Corcoran community offers longer-term potential for market-rate residential development. As with many private-sector developments in Minneapolis, these opportunities may require some form of assistance (land remediation, land assembly, infrastructure improvements) from the public sector; in addition, they will materialize only if the area can provide an environment featuring a sense of security, access to high quality amenities, and - most important from the investor's perspective - evidence of



ongoing investment in the community.

The types of residential development offering the greatest promise in the near future include:

- **Senior Housing:** As documented above, Corcoran features high concentrations of seniors, whose housing needs are largely unserved at this time. While these senior populations do not comprise a market as lucrative as more suburban communities, likely market demand will be strong for moderately priced products ranging from independent living apartments to assisted living.
- **High Quality Apartments:** Since prospective home buyers must make greater commitments to a community than renters, high quality apartments are likely to precede new upscale "homestead" dwelling units in Corcoran. Upon opening of the light rail line and the community's investment of additional improvements around the Hi-Lake area, high quality apartment products, featuring either an affordable component (20 percent) or an upper-middle market price range (as opposed to the highest price ranges achievable in the Warehouse District) could provide an attractive development opportunity.

D. SUMMARY OF MARKET FINDINGS

The following presents a brief summary of key findings relating to retail and residential market opportunities:

- Despite Hi-Lake's prominence as a major retail destination, the local retail market is underserved, with household spending flowing outside of the community.
- This spending "outflow" presents opportunities for retailers involved in groceries, specialty foods, restaurants and taverns and other niches.
- While short-term residential market opportunities are constrained by the area's existing image, the local housing market has featured rising



prices and rents and low apartment vacancies. Given new investments in nearby amenities, infrastructure and other public improvements, the would be able to attract high-quality developments targeting the following niches:

- New homes in various attached forms, generally priced from \$160,000 to \$300,000;
- Upscale apartment projects; and
- Senior housing projects featuring either independent living or assisted living, or other arrangements offering various levels of care and various renter/ownership programs.

III. DEVELOPMENT SOLUTIONS

The discussion in Section II identifies likely directions and market outlooks for the development of basic retail and residential projects in the Corcoran neighborhood. Building upon these findings, the following discussions describe development solutions that, while unconventional and not likely to attract widespread interest from private development entities, could infuse the local market with new vitality and provide important catalysts to enhance prospects for other forms of development in the area.

A. PUBLIC MARKET CONCEPT

1. Market Forces and Development Challenge

The preceding discussions show substantial demand for retail space - including grocers, specialty food stores, restaurants, taverns and other types of businesses -- in the Hi-Lake area. Despite this demand, the mainstream private development community may or may not be prepared to bring substantial retail stores to the Hi-Lake area in its current environment. Moreover, if they were to invest in the area, many developers would work with established tenants, focusing on franchise retailers and other relatively secure tenants operating in easily recognized formats applying successful formulas for goods and services.



This type of development activity, while potentially profitable, would not necessarily provide the retail formats sought in the market. As documented in Section I above, the Corcoran neighborhood features increasing presences of racial and ethnic minorities. These markets often seek goods that may be unique to specific customs, cuisines, and tastes. As such, they may differ from the markets served by typical retail franchises.

This situation presents a challenge: how can the community promote retail development that would respond to the unique and evolving character of the surrounding community?

Over time, natural market forces may in fact identify and serve the unique demands of the evolving market. As an alternative approach, however, the community should invest in a market "catalyst" that will stimulate the market and give the community a recognized status as a destination for its targeted types of retail business.

2. Public Market Concept

The public market format is civilization's oldest retail venue. This format predates merchants and distribution systems, originating in the tradition of farmers and artisans bringing their goods "to market." While a "hard-and-fast" definition is elusive, in general, the public market bears the following physical and operational characteristics:

- Expansive, open floor area: Unlike typical retail shopping centers, the public market features an open floor. Vendors occupy stalls, which typically occupy 200 to 500 square feet, with counters and display cases but no permanent walls.
- Independent businesses: Vendors are independently owned and operated. Typically, these include minorities and other entrepreneurs offering products unique to various ethnic cultures (e.g., handwoven products) and other innovative products. Food products often comprise more than half of the market's businesses: such businesses provide a range of fresh foods (e.g., produce, meat, poultry, seafood); prepared foods such as locally-crafted preserves or ice cream; specialty foods unique to a community or region;

and restaurants.

- Publicly operated: The public market is not operated for private profit, but rather to create a unique retail environment that benefits the community and creates opportunities for local business entrepreneurs. Some vendors may own a small number of other stores, but the public market operates under established policy guidelines regarding its tenants, rent rates, and overall tenant mix.

3. Community Benefits

The public market could offer many benefits to the Corcoran community. In no particular order, the public market concept:

- Builds on the community's unique strengths. The Hi-Lake area offers: Market demand (as discussed above); a recognized retail destination with established anchor tenants; excellent access via the improved Hiawatha Avenue and the LRT line; and proximity to the region's strongest concentrations of Hispanic, Asian, African-American and other ethnic communities. Just as rapid growth in upper-middle income households drives suburban shopping development, the unique qualities of Corcoran - while less familiar to developers, retail franchises, and investors - can drive alternative formats for retail activity.
- Offers a unique retail venue that fits the community's objectives: As discussed above, public markets tend to offer unique goods and services that may not be provided through mainstream retail production/distribution channels. Instead, the public market venue features products that may be hand produced in homes, garages and local gardens, and reflect smaller but significant portions of the local community.
- Enhances prospects for additional retail development: Opportunities in Corcoran are not exclusive to independent businesses. The success of a public market would attract a broad range of other retailers seeking space in the area, and create opportunities for developers (and neighborhoods) to attract businesses such as bookstores, restaurants, and coffee shops.



- Provides business opportunities for locally based entrepreneurs: New retail businesses face high hurdles in leasing space in viable locations. Such locations entail high costs and long commitments. In comparison, the requirements for renting a semipermanent stall in a public market significantly lower the barriers to entry in the retail market.
- Provides a venue for entertainment and entertainment-related activities: Successful public markets serve as venues for live entertainment (usually free) and events such as flower shows, holiday festivals and cooking shows.
- Creates a public venue for social interaction and mingling among otherwise disparate elements of the local community: Testimonials from other public market managers indicate that the public market provides a rare forum in which the community's different racial and ethnic elements mingle freely with one another. This intangible benefit has been cited as one of the most important community benefits of the public market.

4. Other Experiences

Public markets have enjoyed great success in cities such as Seattle, Los Angeles, Cleveland, Baltimore, and others. In the Twin Cities, however, no other public market exists. The metro area does have farmers' markets and some "festival market" developments, but none fit the profile of the public market as described above.

The facility that most closely approximates the public market concept is the Mercado Centrale, located on Lake Street at 4th Avenue. Opened in 1999, Mercado operates as a coop organization occupying the ground floor (12,000 square feet) of a renovated building. Fully occupied, Mercado tenants include 37 tenants, including five restaurants, on the first floor of the building. These typically occupy stalls measuring roughly 10 x 12.

The Mercado pays a base rent of \$3,000 plus 63 percent of the building's operating costs. Tenants sublease their space for \$320/month, or \$32 per square foot per year. Overall, gross retail receipts amounted to an estimated \$3.5 million in 2000, which amounts to nearly \$300/sf.

Tenants are exclusively from within the Hispanic - primarily Mexican -- community; shoppers are primarily from within these communities. Management reports that non-minorities from the region's urban neighborhoods also patronize Mercado vendors, but that the facility does not serve as a destination for suburban shoppers.

The Neighborhood Development Center (NDC), which oversees operations, reports that Mercado has created new opportunities for minority entrepreneurs, and has successfully generated successful retailers currently occupying nearby storefronts.

5. Implementation Issues

In creating a public market, the following issues must be addressed:

- **Public Sponsorship and Management:** Public markets are publicly sponsored. Thus, the community must designate a public or quasi-public agency to manage the public market. This agency must be able to communicate effectively with the various ethnic and business communities throughout the Twin Cities, and must be devoted entirely to public market management (the Mercado's self-managed coop structure raises problems in that coop members are entrepreneurs devoting their energies primarily to their business ventures). Management tasks would involve development tasks (relating to land assembly, funding, design and approval processes, etc.) as well as management tasks (including marketing, operations, tenant/incubator services, policy decisions involving lease rates and tenant mixes, event programming, etc.).
- **Critical Mass:** In order to realize the full range of benefits to the community, a public market must achieve a critical mass: smaller markets do not achieve high visibility or achieve "anchor" or "destination" status." While small public markets contain as little as 25,000 square feet, the Mercado's 12,000 square-foot space (and configuration) does not offer the critical mass necessary to comprise a recognizable and diverse destination. A public market at the Hi-Lake area should contain at least 25,000 square feet.

- Parking: As a retail destination, the public market would have to provide extensive parking facilities to accommodate auto-borne shoppers from throughout the Twin Cities region.

B. COHOUSING CONCEPTS

1. Basic Concept and Benefits

Cohousing offers an alternative model, based on the desire for a greater sense of community -- for residential development. Cohousing concepts originated in Denmark; while still new to the United States, hundreds of cohousing projects are in the planning stages.

The cohousing concept rests upon the desire for community participation. Communities range in size from roughly 15 to 40. While dwelling units are typically self-contained, separate homes, cohousing communities offer community areas that might include recreational facilities, guest rooms, and a community kitchen/dining area for one to three shared meals per week.

The essential distinguishing factor of cohousing communities involves the development and property management processes. Cohousing projects are driven not by developers or real estate companies, but by residents. In cohousing developments, residents assemble before development occurs and collectively proceed through the (often lengthy) processes of site selection and acquisition, project design, permitting, financing, construction, and management of their communities.

While cohousing projects can take virtually any physical form (e.g., suburban subdivisions, high-rise apartments, historic renovations, etc.), resident-driven cohousing projects can provide the following advantages:

- A sense of community, wherein neighbors participate in activities together and contribute various skills and resources to community living;
- Ability to provide homes suited to the individual needs and preferences of their residents: while conventional developers apply model floor plans and unit mixes, cohousing groups can provide smaller units for smaller (or lower-



income) households and larger units for larger households.

- Reduced unit costs through the development of shared community spaces: cohousing residents expect to make use of community amenities such as guest rooms (which most homeowners use infrequently), entertainment areas, business facilities, play areas, laundry facilities, and other such areas. Consequently, residents may require less space in their actual units, thereby reducing the costs of their homes.
- Possible cost reductions: the cohousing development process requires substantial resident involvement, but it can eliminate or significantly reduce costs for marketing, developer profit, and - where residents include attorneys, engineers, architects, or other professionals with applicable skills - other development costs. The following tables provide hypothetical comparative costs - and prices - of a conventionally developed, 60-unit townhouse project versus a 30-unit townhouse cohousing project.

2. Cost Issues

At many cohousing projects, costs have been rough equivalent to the costs of conventionally developed homes. In the development process, however, it is possible, to affect savings that can enable the project to provide lower-cost units for some or possibly even all of its members.

While such savings require great effort and care, the existing 15-unit Monterrey Cohousing community in St. Louis Park has been able to provide some small but affordable dwelling units, with an overall price range of \$24,000 to \$160,000 (in 1996). This community features 15 units, ranging from 500 to 1,600 square feet in size. The community center contains approximately 6,000 square feet, and features a living room, library, wood shop, dining room, kitchen, laundry area, guest rooms, hot tub, play area, community garden, forested grounds and a system of underground tunnels connecting the units and community center.

While not every potential cohousing member will seek a community similar to Monterrey, this development succeeded in providing affordable options for its residents.



The following exhibits offer a comparison between the typical costs and prices involved in a standard townhouse development and a co-housing project developed in a cost-conscious process.

The first exhibit presents a reasonable approximation of the costs and home prices at recent successful projects in Minneapolis. As shown in the Exhibit, prices range from \$325,000 to \$350,000 (base prices). Home sales provide \$20.1 million in income, which is just sufficient to cover the developer's costs while providing a 15 percent developer profit.

In comparison, Exhibit 14 below presents a rough equivalent model for a cohousing project. This hypothetical omits costs for developer profits and marketing, and -- assuming that the group's design ideas and skills would affect a net savings - reduced architecture/engineering costs. In addition, unit sizes (and costs) are reduced as a result of (1) the project's ample community area and (2) the community's likely mix of seniors, singles, and other cost-conscious home buyers.

As a result of these cost reductions, unit prices in this hypothetical community range from below \$195,000 to \$295,000 and more. While such prices remain high for many Corcoran residents, but they would be able to address portions of the market not addressed by the developer-driven project. With smaller dwelling unit sizes and potential additional cost savings (achieved through public assistance, creative financing techniques, and additional resident "sweat equity" contributions - facilitated through a community home design/improvement center), other cohousing development programs could provide attractive housing for the middle-income tiers of the market.

3. Cohousing Development Steps

One of the most formidable obstacles to cohousing development involves the difficulty and length of the development process. As mentioned above, cohousing communities are developed by their own residents. In the development process, cohousing groups must form, organize and proceed along the various steps in the development process. These include the following:

	Size (sf)	Dwelling Units	Total Flr. Area	Unit Cost	Revenue
Revenues					
2 BR Small	1,400	36	50,400	\$325,000	\$11,700,000
2 BR Large	1,650	24	39,600	\$350,000	\$8,400,000
Common Area			25,000		
Totals		60	115,000		\$20,100,000
Value/sq. ft.					\$175
Costs					
Construction Costs		\$100 per sq. ft.		\$191,667	\$11,500,000
Architecture/Engineering		7% of hard cost		\$13,417	\$805,000
Construction Interest				\$8,484	\$509,028
Financing		2% constr. Loan		\$4,753	\$285,170
Other "soft" costs/contingency		6.5% of hard cost		\$12,458	\$747,500
Marketing		6.0% of price		\$20,100	\$1,206,000
Land		\$10 per sq. ft.		\$36,304	\$2,179,250
Developer Profit		15% of cost		\$43,077	\$2,384,642
Total Development Costs				\$330,260	\$19,815,891

Exhibit 13 Financial Analysis
Illustrative Condominium/Townhouse Project

	Size (sf)	Dwelling Units	Total Flr. Area	Unit Cost	Revenue
Revenues					
Avg. Small	1,000	15	15,000	\$195,000	\$2,925,000
Avg. Large	1,400	15	21,000	\$295,000	\$4,425,000
Common Area			17,500		
Total Revenue		30	53,500		\$7,350,000
Value/sq. ft.					\$137
Costs					
Construction Costs		\$100 per sq. ft.		\$178,333	\$5,350,000
Architecture/Engineering		5.0% of hard cost		\$8,917	\$267,500
Construction Interest				\$7,099	\$212,959
Financing		2% constr. Loan		\$3,977	\$119,305
Other "soft" costs/contingency		6.5% of hard cost		\$11,592	\$347,750
Marketing		0% of price		\$0	\$0
Land		\$10 per sq. ft.		\$36,304	\$1,089,125
Developer Profit		0% of price		\$0	\$0
Total Development Costs				\$246,221	\$7,386,639

Exhibit 14 CoHousing
Cost Illustration



- **Initial Contacts and Group Formation:** In forming a cohousing group, interested individuals and/or small groups should be aware of the resources available to assist them. Such resources include an existing network in the Twin Cities of cohousing advocates, residents and potential residents. Individuals in this network have indicated a willingness to help other cohousing groups. In addition, The Cohousing Network, a national organization, is available for to provide other services, support, and referrals to other resources.
- **Preliminary Vision and Preferences:** the initial group must establish its collective preferences regarding the character of their envisioned community, location, and the types of structures and amenities desired.
- **Guidelines for development funding contributions:** members must commit initial funding for the basic development process, and must establish their methods for determining the timing and extent of the members' future funding contributions.
- **Contact/retain consultants:** the group will need help in matters pertaining to legal issues, design, engineering, and permitting. Various group members must establish these relationships.
- **Site Selection and Acquisition:** the group must identify alternative properties, check applicable development regulations, meet with municipal officials regarding approval requirements and processes, etc.
- The group must work closely with architects and engineers, focusing on individual units, community spaces, exterior treatments and grounds.
- Approval/permitting processes;
- Construction, establishment of operating procedures, and occupancy.



C. ENTERTAINMENT CONCEPTS

Entertainment uses can play a key role in the revitalization of the area around the Hiawatha/Lake Street intersection. Private interests, however, will not likely seek locations in the for high-profile entertainment destinations; projects such as downtown's Block E, major cineplexes, and other such developments tend to prefer high profile, downtown locations, or outlying locations with ample land tracts and interstate highway access.

Consequently, entertainment activities in the would most likely involve smaller venues, such as live theatre, outdoor event venues, small music clubs, and arts organizations (e.g., classical music, Asian theatre, acoustic society, etc.). If a public market is constructed in the , this would very likely feature live performers, and would provide an initial base of activity for residents and visitors seeking leisure-oriented activities.

