Dinkytown Small Area Plan:
Market Analysis

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1.0 Introduction

The purpose of this market analysis is to provide information about the market forces influencing Dinkytown in order to better inform stakeholders and decisions makers as they establish goals and guidelines for the Dinkytown Small Area Plan.

Dinkytown is a small commercial district located in the Marcy-Holmes neighborhood of Minneapolis. It is adjacent to the Twin Cities campus of the University of Minnesota, one of the nation's largest land grant universities with a student enrollment of over 50,000.

Encompassing an area of roughly nine city blocks and centered on the intersection of 4th Street SE and 14th Avenue SE, Dinkytown is a long-established commercial district that has continuously evolved and adapted to various market conditions over the years. Nonetheless, it has always served a mixture of markets including University students and employees, neighborhood residents, and visitors attracted to the district's eclectic mix of businesses and University functions. Recently, though, new residential development focused on students has begun to see k development sites in Dinkytown, which may potentially alter many of the district's longstanding characteristics, such as its built form, parking availability, types of businesses, and market position.

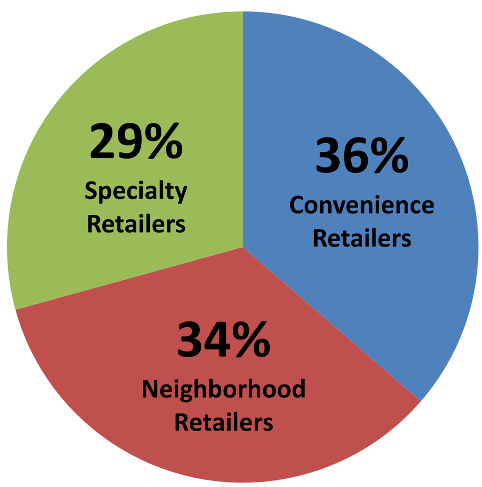
2.0 Dinkytown Market Profile

2.1 COMMERCIAL BUSINESS MIX

Dinkytown primarily functions as a retail node adjacent to the University of Minnesota. Although there are examples of office-based businesses located on some of the upper floors of buildings within the study area, the overall character and market position of the district is dominated by retail activity.

As of summer 2013, there were approximately 60 retail establishments within the Study Area. Figure 1 provides a breakdown of the retail establishments by type. According to the figure, approximately one-third of these retail establishments can be classified as convenience retailers, another one-third as neighborhood retailers, and the final one-third as specialty retailers. This mix of retail businesses is supported in part by Dinkytown's location adjacent to the University, its central location within the Metro Area, and its availability of smaller spaces and buildings owned by multiple property owners.

Figure 1: Dinkytown Businesses by Retail Type



Source: Stantec

Each retail type, however, generally serves a market with differing needs and characteristics as follows:

Convenience Retailers (21 businesses or 36%)

- Serve a local or pass through market (i.e., persons with a nearby destination in which they regularly travel through Dinkytown – this can be a residence, workplace, school, etc.)
- Customers generally don't distinguish between competitors as convenience often takes precedent over pricing, quality, and other characteristics
- Dominated by fast food and other chain restaurants

Neighborhood Retailers (20 businesses or 34%)

- Exclusively serve a local market
- Businesses form relationships with customers due to the frequency of business
- Consist mostly of retail service businesses (e.g., salons, repair shops, etc.)

Specialty Retailers (17 businesses or 29%)

- More dependent on a broader, non-local market
- Typically a destination for the customer or part of a shopping “experience”
- Mixture of business types, but each can be easily distinguished from competitors

2.2 COMPETITIVE COMMERCIAL DISTRICTS

Dinkytown is located on the northern edge of the University of Minnesota campus. However, given the University’s size, both demographically and geographically, there are several other similar commercial districts near or adjacent to the campus that in varying degrees compete with Dinkytown for customers.

These competitive districts include Stadium Village on the eastern edge of campus; West Bank on the western edge of campus; and East Hennepin, which is located approximately one mile northwest of Dinkytown. Stadium Village is closest in proximity to Dinkytown, and thus is the most competitive of the districts. It also shares an orientation that is heavily influenced by the University, whereas West Bank and East Hennepin are influenced by other geographic factors, namely their closer proximity to downtown Minneapolis and the demographic diversity of area residents.

Figure 2 presents a comparison of each commercial district based on the number of establishments by business type and ownership structure. Each district has a similar number of businesses but they differ in other important respects. In Dinkytown about half the businesses are restaurants and bars, and of those, about half are part of a chain operation.

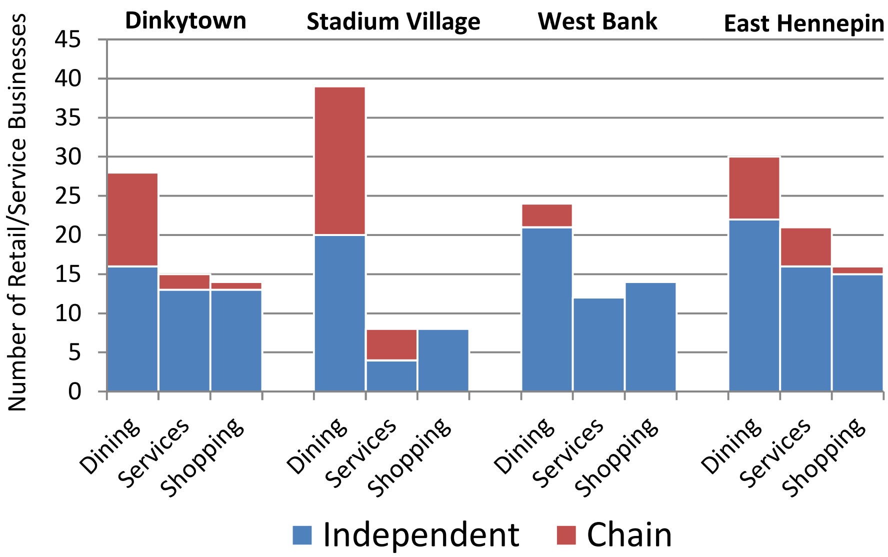
2.2.1 Stadium Village

Stadium Village, in contrast to Dinkytown, is dominated by restaurants, many of which are chain operations. It should be noted, though, that restaurants as opposed to bars make up a much larger portion of the dining category in Stadium Village than the other competitive districts. This can be attributed to the district’s demographics which mostly consist of college-age students, particularly younger college-age students due to the presence of the University’s large freshman and sophomore dorms in the area. Also, the University Hospital is located near Stadium Village which drives a lot of daytime demand as opposed to night time demand, which is critical for restaurant profitability. Finally, most of the bars in the area are heavily influenced by the presence of the various University sports venues and thus have a limited market orientation that is almost entirely focused on athletic events.

2.2.2 West Bank

Restaurants and bars are an important component of the business mix in the West Bank district as well, but chain operations are nearly non-existent. This is somewhat due to the fact that the West Bank is a key entry point for many immigrants into Minneapolis and the Twin Cities region, and, despite its proximity to the University, there are many independently owned businesses that serve the diverse community.

Figure 2: Commercial Businesses by Type



Sources: CoStar; Stantec

2.2.3 East Hennepin

The East Hennepin district has the most businesses of the four districts analyzed. Although restaurants and bars are the most common business type, unlike the other commercial districts, they are not as dominant. East Hennepin, however, is located the furthest from the University campus and thus is not as directly impacted by it. In many ways, the East Hennepin district has a commercial profile most like a typical neighborhood commercial area. However, its complement of restaurants and bars is still higher than one would find in a typical neighborhood commercial district.

2.3 CONSUMER MARKETS

With its diverse array of businesses, Dinkytown attracts a variety of visitor types that vary throughout a typical day or when large events occur at the University. The variation in customers and their reasons for visiting Dinkytown can present challenges when planning for the district's future. Although many businesses and their customer bases can and do complement one another, in other cases, these differences can be at odds with each other creating problems with respect to parking, branding, security, to name a few possible issues. With input from the Dinkytown Business Association, the following is a brief breakdown of the major visitor types and their characteristics.

2.3.1 Morning and Afternoon Markets

During the morning and afternoon hours, Dinkytown's consumer market consists mostly of University students and employees as well as workers within a 10-minute drive of Dinkytown, which include the employment districts centered in Northeast Minneapolis and the area around University Avenue and Highway 280. These visitors are drawn to the convenience of Dinkytown and support many of the fast food and quick service restaurants. Students and University employees are somewhat of a captive market for Dinkytown as they work or attend classes on campus according to a regular schedule. Typically, this market walks to Dinkytown.

Employees who work near Dinkytown find its concentration of restaurants an appealing destination, particularly for fast food and quick service establishments during the lunch hours. Unlike University students and employees, though, this market is generally dependent on traveling to Dinkytown by car and is drawn by the district's availability and affordability of parking relative to downtown Minneapolis and the other competitive commercial districts noted previously. This market generally contributes to a sharp spike in parking demand around the noon hour.

The two previous consumer markets are somewhat complemented during the day hours by persons who are attracted to any number of specialty retailers and services found in Dinkytown. These types of businesses survive by attracting customers from a broad area because of their reputation or the niche nature of their good or service. This customer base is often willing to endure parking, traffic, or other accessibility issues because they are motivated to seek out a particular business. However, the overall market size of these types of businesses is small and generally does not generate the same level of customer traffic as other businesses found in Dinkytown. As a result, these businesses are often susceptible to being "priced-out" of the market by other businesses who can afford to pay higher rents because they appeal to the larger customer bases of the first two consumer markets.

2.3.2 Evening Markets

During the evening hours, the consumer market for Dinkytown changes to a regional destination for dining in which visitors come from outside of the immediate Dinkytown area and are drawn by full-service restaurants, such as Loring Pasta Bar, Kafe 421, and Vescio's. This market almost exclusively travels to Dinkytown by car and is highly dependent on the availability of parking, especially its perceived sense of convenience as this market can be easily diverted to any number of other dining destinations throughout the metro area. Except during special events, availability of parking generally increases in the evening when many of the University garages become more available.

As the number of housing units increase within walking distance of Dinkytown, however, the evening hours will also be complemented by demands from area residents, mostly students, in need of more affordable food and sundry items. The businesses that meet demand from this consumer market are not as dependent on parking as those that draw from a larger trade area.

2.3.3 Late Night Markets

During the late night hours, the consumer market shifts back to primarily students who are drawn by area bars and restaurants with late night hours. The critical mass of bars in Dinkytown helps create a destination for bar goers as they can easily “bar-hop” from one establishment to another in a small geographic area. The economics of bars, especially those that specialize in higher volume alcohol sales, is that they often achieve very high sales per square foot. This can impact the commercial market as such businesses can easily “out-price” other business types for space, particularly specialty retailers.

Although bars are the key drivers of commercial activity during this time, there is also a significant number of restaurants without liquor that complement the bar-going market. According to the Dinkytown Business Association, many of the restaurants that meet this particular consumer demand often generate higher sales per square foot when compared to their more traditional day time consumer markets.

2.3.4 Special Event Markets

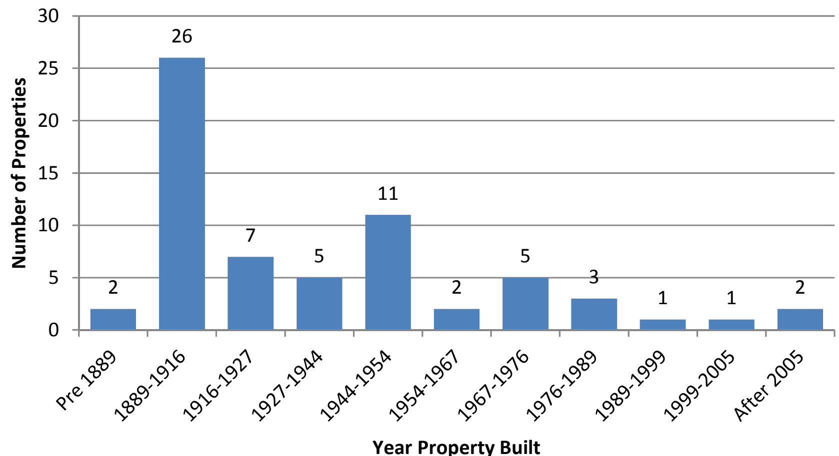
Because the University of Minnesota hosts many large sporting and cultural events, Dinkytown regularly experiences peaks in consumer demand driven by attendees to these events. The events generally occur during the evening hours, particularly on weekends. However, they also regularly occur during the day as well. Attendees to such events come from a very wide geographic area that can often extend well beyond the metropolitan area. An important component of this market is alumni who have a nostalgic connection to Dinkytown and, therefore, value long-standing establishments. Because these events generate a pool of national and international consumers, they help contribute to an awareness of Dinkytown that extends beyond the immediate region.

2.4 BUILDING FORM

Dinkytown’s built form influences its market profile. The age and size of the buildings affect the character of the environment, the business mix, and achievable rents. Most buildings in Dinkytown are smaller one, two, and three-story commercial buildings of varying ages and conditions. This includes several properties that were originally built as residences but have been adapted over time into commercial spaces. According to CoStar, a commercial real estate database, the largest contiguous commercial space in Dinkytown is 12,500 square feet with the average space being about 2,500 square feet.

According to City records, approximately two-thirds of the buildings in the Dinkytown study area were built before World War II and one-third were built after the War. Figure 3 presents a detailed breakdown by age period of when Dinkytown buildings were constructed. Older buildings generally contain smaller spaces, have higher maintenance costs, and many times have non-standard layouts. Non-standard layouts, in particular, can influence the business mix of a retail district as many chain store operations have specific layout designs that are challenging to adapt. If a chain store operator does not want to incur the expense of retrofitting their standard layout into a non-standard older building then that property will likely need to reduce rents in order to attract users who can either easily adapt to the non-standard layout or can incur the cost of retrofitting.

Figure 3: Age of Dinkytown Study Area Properties



Source: City of Minneapolis

Although many older buildings can and do attract the highest paying tenants despite these issues, they generally have lower rents per square foot when competing with more modern commercial spaces. According to several commercial real estate brokers familiar with the Dinkytown market, older buildings in Dinkytown generally achieve between $20 and $30 per square foot in rent whereas newer buildings can command between $30 and $40 per square foot.

2.5 PROPERTY VALUES

Underlying property values can be a key determinant of which properties are likely to be ripe for redevelopment, and thus are susceptible to developer interests. Map 1 shows the estimated market value of each property in the Dinkytown Study Area on a per square foot basis. This value accounts for both the value of the underlying land and the structures on the property. The lighter colored properties indicate where property values are low relative to other nearby property values and therefore more easily redeveloped. For instance, the Opus project on the south side of 5th Street SE between 13th and 14th Avenues SE shows up as $20-60 per square foot on Map 1 and is now under active redevelopment.

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Map 1: Dinkytown Property Values per Square Foot

3.0 Trade Area Analysis

Map 2 on the following page depicts a 10- and 20-minute walk shed around Dinkytown. The 10-minute walk shed covers most of the eastern half of the Marcy-Holmes neighborhood east of I-35 as well as those portions of the east bank of the University campus north of Washington Avenue. This might be the geographic extent one might walk in order to patronize many of the businesses in Dinkytown, particularly convenience goods. This area contains a population of about 8,000 residents and approximately 10,000 employees and non-resident students. Combining these two population groups means there are roughly 18,000 people living, working, or attending classes every day in this area.

Expanding the walk shed out to a 20 minute walk, increases the day time population to about 60,000 people. This is a very sizable number of people within a comfortable walking distance of Dinkytown, which helps explain the strong pedestrian character of Dinkytown and its ability to support a variety of businesses. However, within a 20-minute walk from Dinkytown, one can reach the competitive districts of Stadium Village, West Bank, and East Hennepin, which ultimately limit the size of the local market. As noted previously, though, Dinkytown also attracts many customers from beyond this walk shed. Nonetheless, the high concentration of people within this walk shed defines many of the characteristics currently associated with Dinkytown.

3.1 IMPACT OF LIGHT RAIL TRANSIT

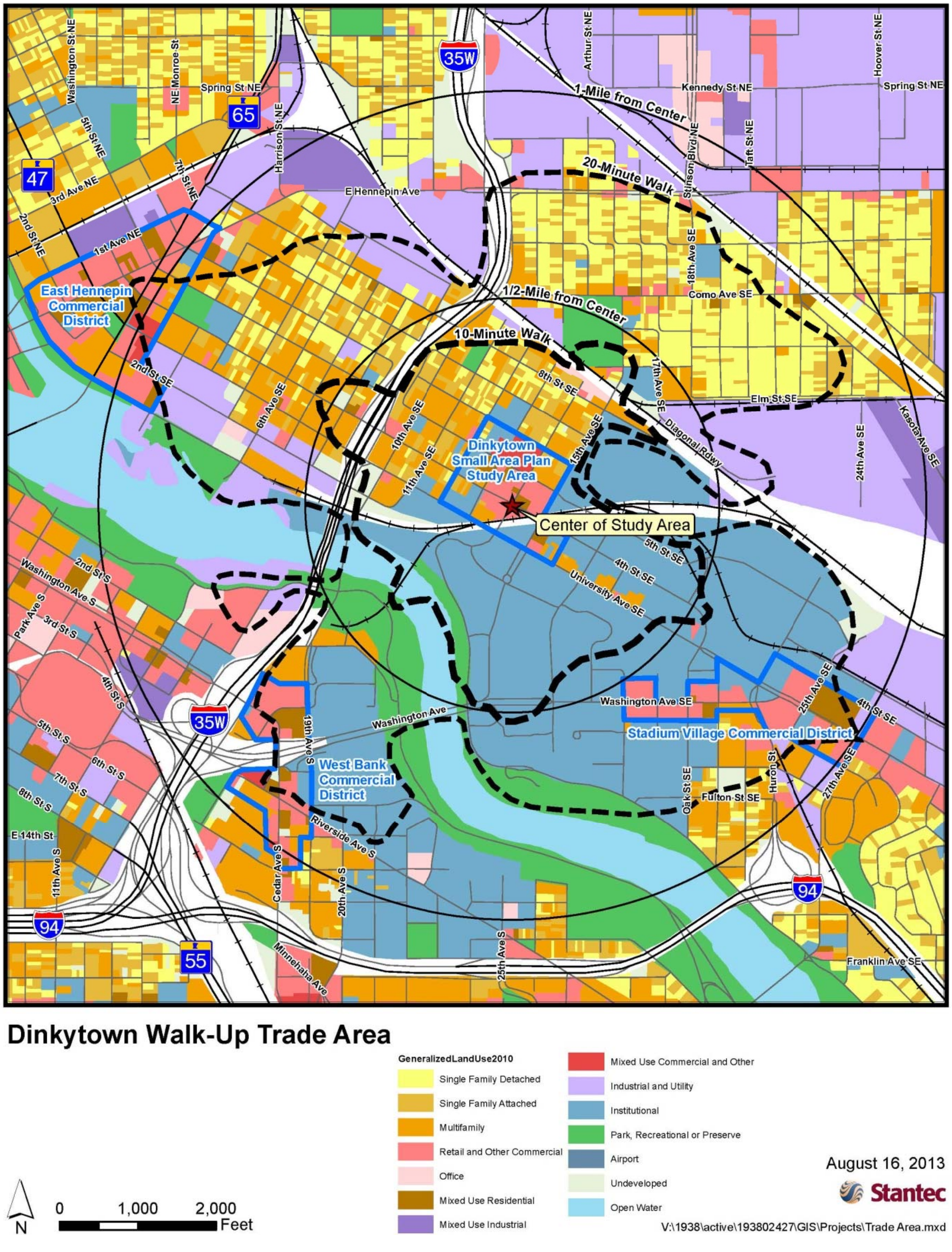
Map 3 titled Travel Time to Dinkytown via LRT depicts a theoretical walk shed should one use the LRT to get to Dinkytown. In other words if one was committed to spending 20 minutes to get to Dinkytown, the LRT would expand this persons geographic reach to include areas around several LRT station stops. If this time budget was increased slightly to 25 minutes, the area would be much larger. Therefore, the impact of the LRT on Dinkytown can be summarized as follows:

- It will expand the pedestrian trade area for Dinkytown. This will mean businesses in Dinkytown that rely on pedestrian traffic will be able to serve a larger market.

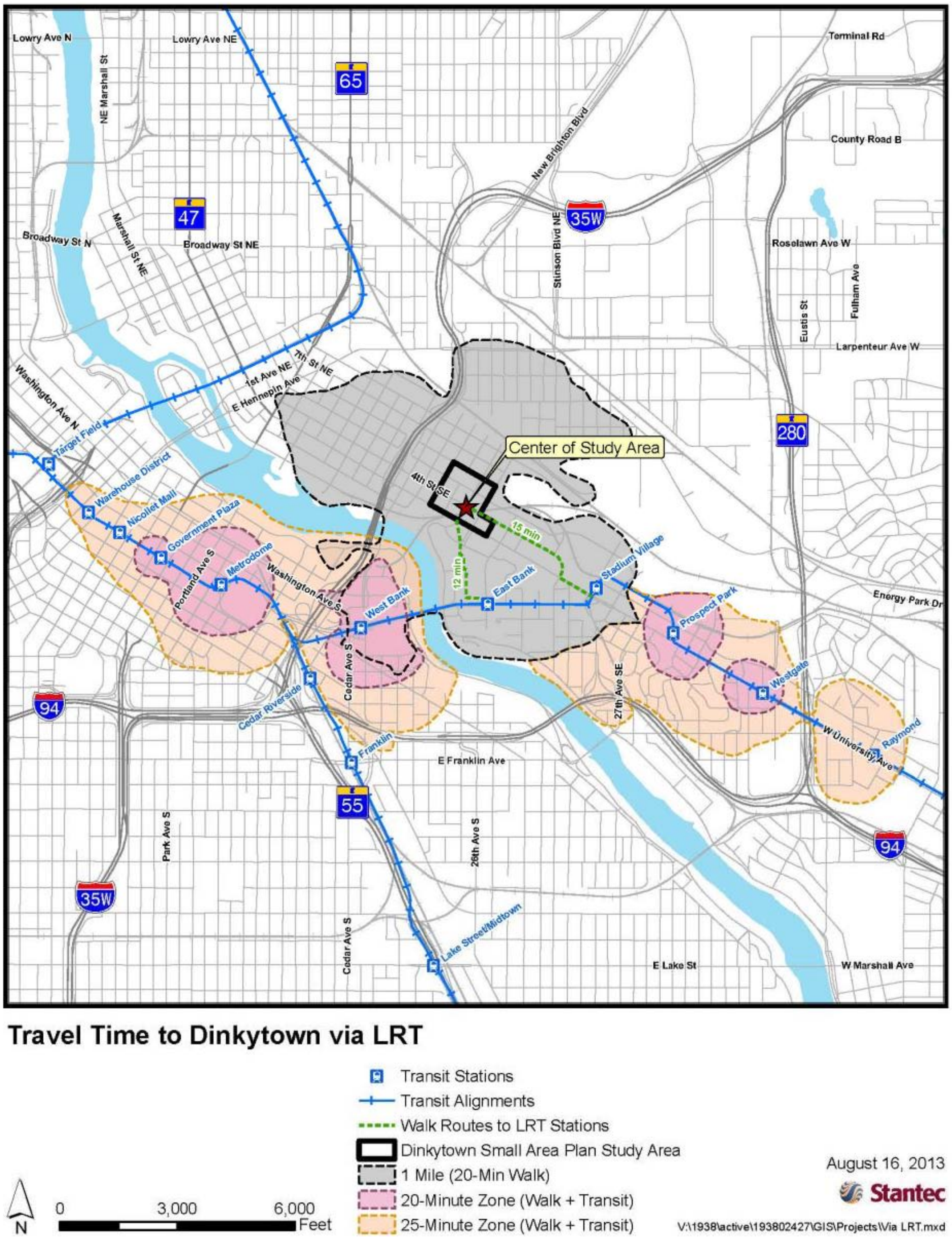
- Over the long-term, though, other competitive commercial districts, namely Stadium Village and the West Bank, will benefit from an even much larger expanded market than Dinkytown. Therefore, new development, particularly high-volume convenience retailers, will skew toward these station areas. The effect of this will be that 1) students will be able to live near a station that is 3 or 4 stops from campus and have the same commute time as students living in Dinkytown; 2) more chain retailers will gravitate to the station areas; and 3) station areas could become more uniform in character as they evolve to meet demand driven by their convenient location.

- As the commercial areas adjacent to the station evolve to more uniformity, there will be potential for Dinkytown to expand market by leveraging its unique attributes/character.

Map 2: Dinkytown Walk-Up Trade Area



Map 3: Travel Time to Dinkytown Via LRT



4.0 Supply and Local Demand Analysis

As previously noted, Dinkytown has a diverse market profile defined by an eclectic mix of businesses, a varied building stock, and a consumer market that shifts dramatically throughout a typical day or according to a special University event. Despite this variation, the core market has historically been and will continue to be persons living and working within a short walk of Dinkytown. As this core market changes, so too will the businesses within Dinkytown. Therefore, it is important to understand which types of commercial categories are pulling in visitors from beyond this core market and which categories may be lacking within Dinkytown.

Table 1 and Figure 4 summarize results of a commercial supply and local demand analysis that reveals which commercial categories exceed or do not meet local demand. The negative numbers in the column on the far right of Table 1 (Demand for Additional Retail) indicates that the amount of existing commercial space exceeds the local demand and therefore is pulling in customers from a wider trade area (e.g., fine dining restaurants that pull from throughout the metro area).

The positive numbers in the far right column indicate that existing commercial space does not meet local demand, and therefore more space would be needed to meet that demand. As a result, these customers are leaving Dinkytown for these goods and services. Although this can represent opportunity for new businesses, some business types will be challenged by the space and access constraints of Dinkytown and may not be able to operate there despite the market opportunity (e.g., big-box discount merchandisers).

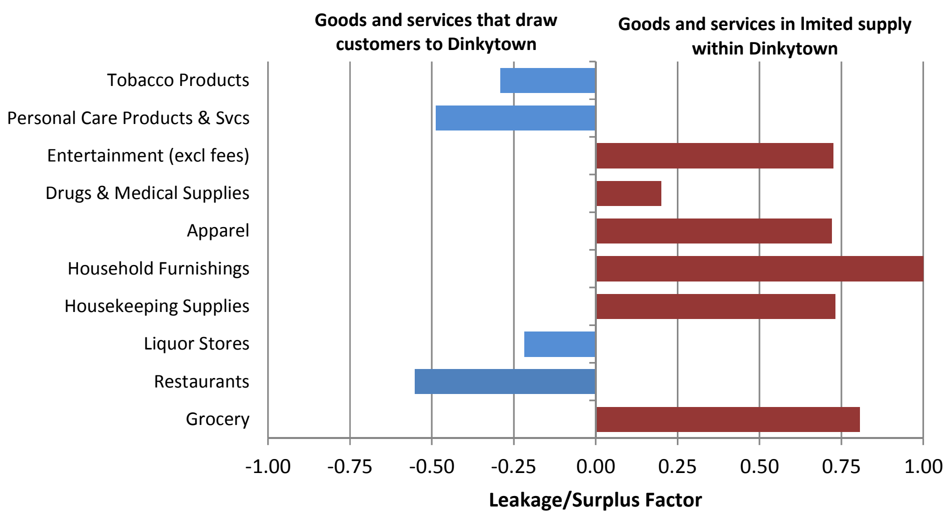
Table 1: Dinkytown Commercial Supply and Local Demand Analysis

Consumer Expenditure Survey[1] Spending Categories	Annual Expenditures by Category[2]		Supportable Square Feet[3]		Existing Space (approx.)[4]		Demand for Additional Retail (+/-)
Grocery	$10,795,268	→	21,591	-	4,200	=	17,391
Restaurants	$16,116,455	→	35,814	-	80,000	=	-44,186
Liquor Stores	$1,564,891	→	3,130	-	4,000	=	-870
Housekeeping Supplies	$1,676,104	→	5,587	-	1,500	=	4,087
Household Furnishings	$3,996,864	→	11,420	-	0	=	11,420
Apparel	$6,015,815	→	20,053	-	5,600	=	14,453
Drugs & Medical Supplies	$2,250,232	→	3,750	-	3,000	=	750
Entertainment (excl fees)	$6,838,494	→	45,590	-	12,500	=	33,090
Personal Care Products & Svcs	$1,966,838	→	6,556	-	12,800	=	-6,244
Tobacco Products	$1,787,004	→	2,553	-	3,600	=	-1,047
Total	$53,007,965		156,043		127,200		**28,843**

[1] Published annually by the US Bureau of Labor Statistics (BLS)
[2] Sources of spending include residents within 10-min walk of Dinkytown, U of M employees, and U of M visitors
[3] Based on average sales per square foot from the International Council of Shopping Centers (ICSC)
[4] Based on fieldwork and data from CoStar, a commercial real estate database

Figure 4 translates the demand results from Table 1 into a graph that better illustrates by factors how much demand from each commercial category is either "leaked" out of Dinkytown or is in surplus. For example, a factor of 1 means that there is commercial space within Dinkytown that provides those goods or services and, therefore, the local market must travel outside of Dinkytown for such goods or services.

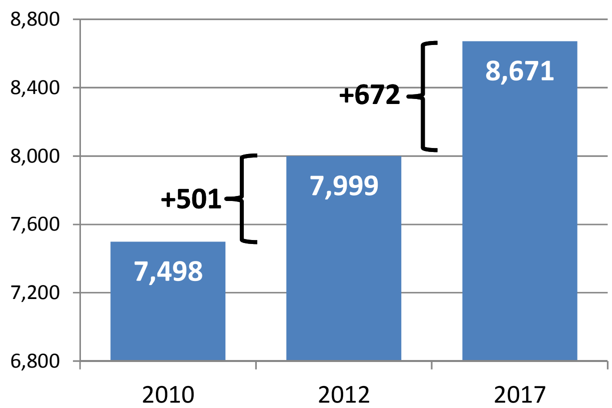
Figure 4: Dinkytown Commercial Leakage Analysis



4.1 IMPACT OF FUTURE GROWTH ON DEMAND

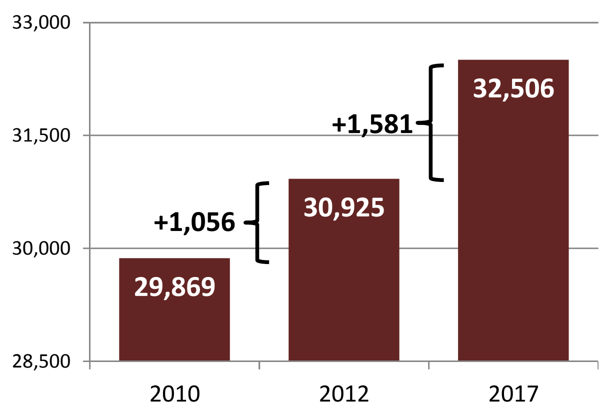
Figures 5 and 6 presents the population within a ½-mile and one-mile radius of Dinkytown for 2010, 2012, and 2017. Persons living close to Dinkytown represent a key core market, and any significant growth of this group will have a profound impact on the commercial businesses in Dinkytown. In 2010, the population living within ½-mile of Dinkytown was approximately 7,500. Given recent housing development, this area is forecasted to increase its population to nearly 8,700 or 16% by 2017. Expanding the radius out to one mile, the increase is forecasted to be over 2,600 persons by 2017. This short-term population growth in the immediate Dinkytown area could increase resident purchasing power by $3-4 million over the next five years. This could translate into another 15,000-20,000 square feet of demanded commercial space on top of the current demand generated by residents, workers, and visitors.

Figure 5: Population within ½ Mile of Dinkytown



Sources: US Census; Esri Business Analyst Report

Figure 6: Population within 1 Mile of Dinkytown



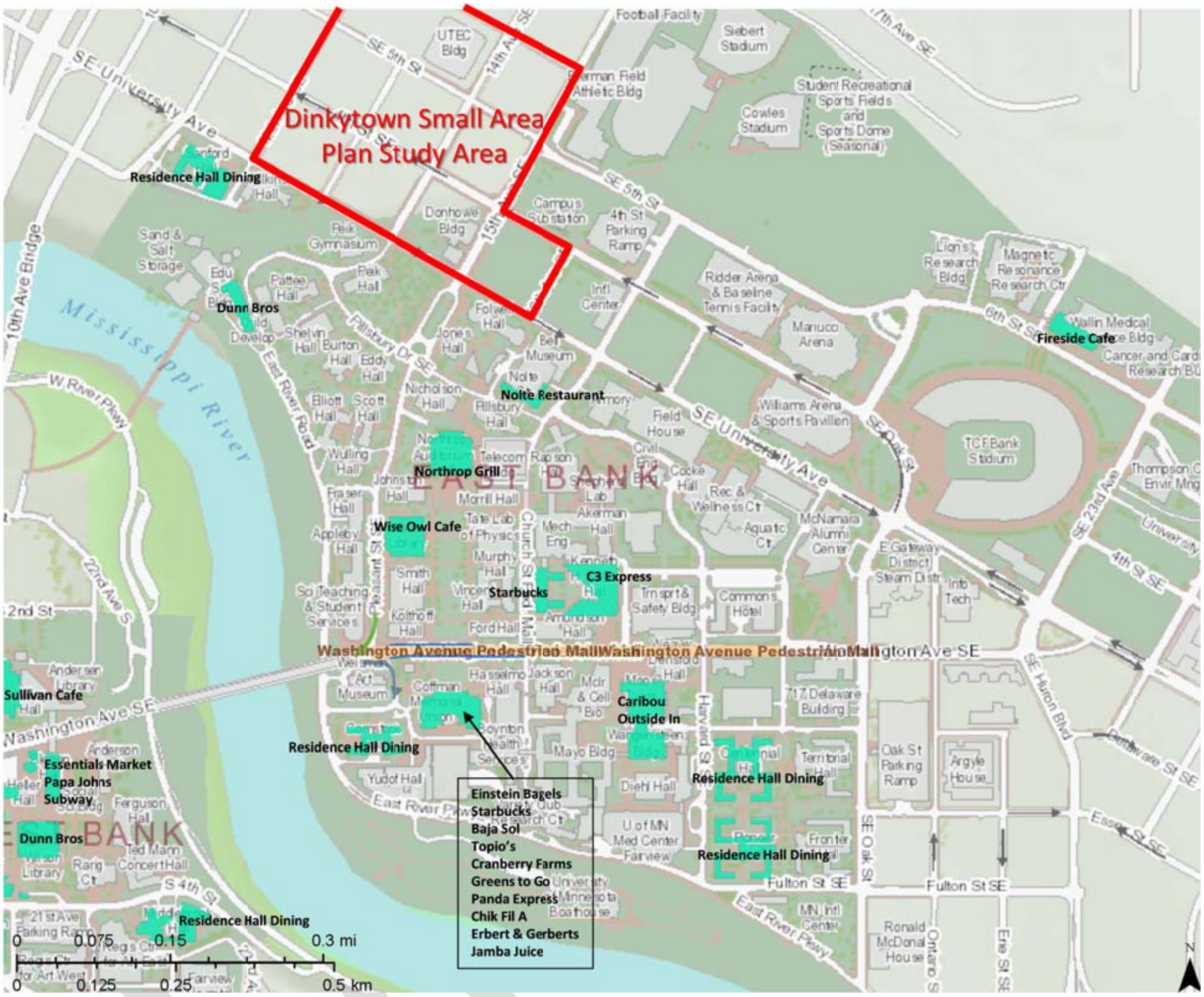
Sources: US Census; Esri Business Analyst Report

4.2 IMPACT OF UNIVERSITY OF MINNESOTA RETAIL SPACE

An analysis of University of Minnesota retail offerings (e.g., coffee kiosks, restaurants, book stores, etc.) was conducted to determine whether these have a significant impact on Dinkytown's commercial market. Figure 7 shows where these offerings are currently located on the University's campus. The following are key findings from the analysis:

- University retail is dominated by fast food chains and coffee kiosks
- Coffman Union accounts for over two-thirds of East Bank Campus retail
- Non-Coffman Union retail is entirely focused on the morning and afternoon market as very few locations are open after 3:00pm
- Other than food trucks and a seasonal farmers market, there is very little innovation of on-campus retail
- Other than Coffman Union, very little place making is part of retail experience on campus

Figure 7: Location of University of Minnesota Commercial Offerings



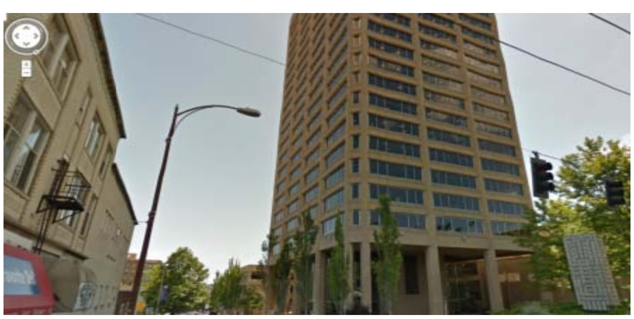
Based on the analysis, on-campus commercial offerings do not significantly impact Dinkytown because the competitive offerings are very limited both in terms of hours of operation (heavy focus on weekday mornings and afternoons) and the types of options (mostly fast food and quick service restaurants). It should be noted, though, that the new residence hall located at 17th Avenue SE and 4th Street SE that opened Fall 2013 features a brand new dining concept that is open to the general public in which the choice of organic and fresh food options will be greatly enhanced compared to other dining hall locations. Although it may attract students, it may have trouble reaching the general population markets as they may resist dining in a residence hall.

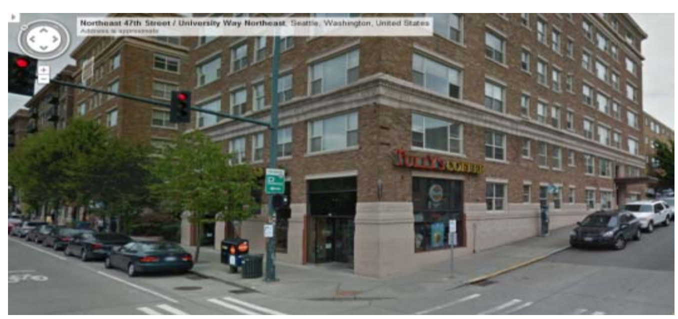
5.0 Case Studies of Comparable University Commercial Districts

Large, urban universities are significant generators of economic activity, especially within commercial districts adjacent to the campus. Therefore, in order to better understand the development potential of Dinkytown (or at least the development pressures that bear down upon Dinkytown), this section presents case studies of four commercial districts adjacent to similar sized universities in similar sized metro areas. The case studies consist of Google street view images meant to illustrate the character of development and its maximum magnitude. The street view images are augmented by a map of each university district in relation to the region's primary downtown or central business district. In general, similar commercial districts have intensified over time and now contain more intense development patterns than what is found in Dinkytown.

5.1.1 University of Washington

Enrollment: 43,000
Location: Seattle, WA
Metro Area Population: 4.0 million



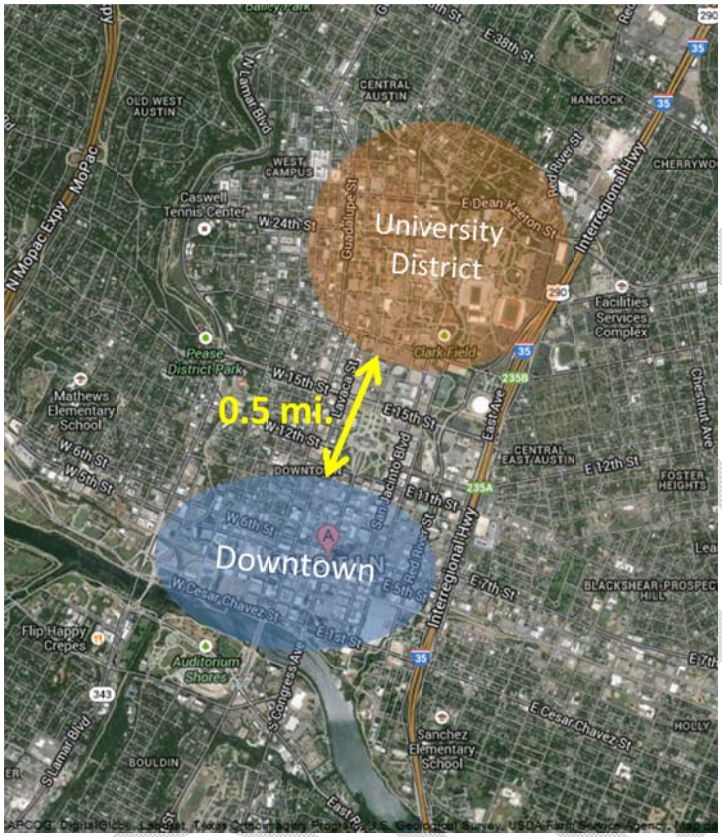


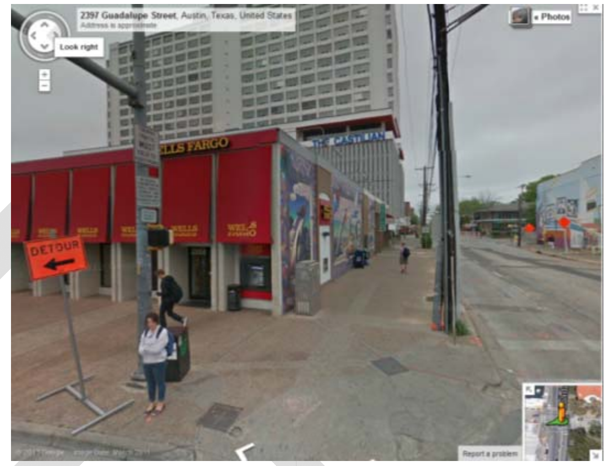
5.1.2 University of Texas

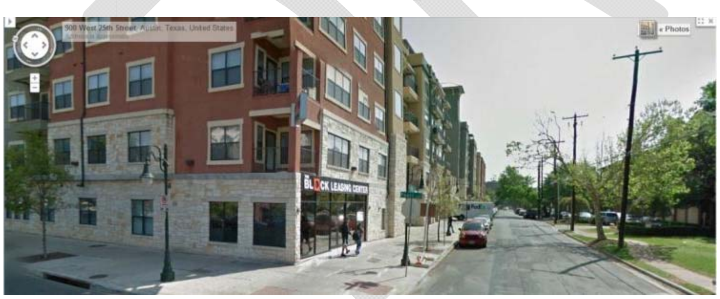
Enrollment: 52,000

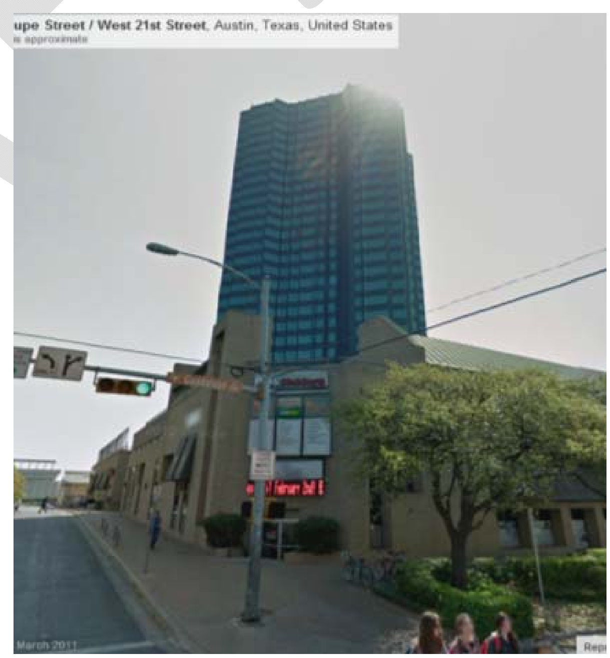
Location: Austin, TX

Metro Area Population: 1.8 million



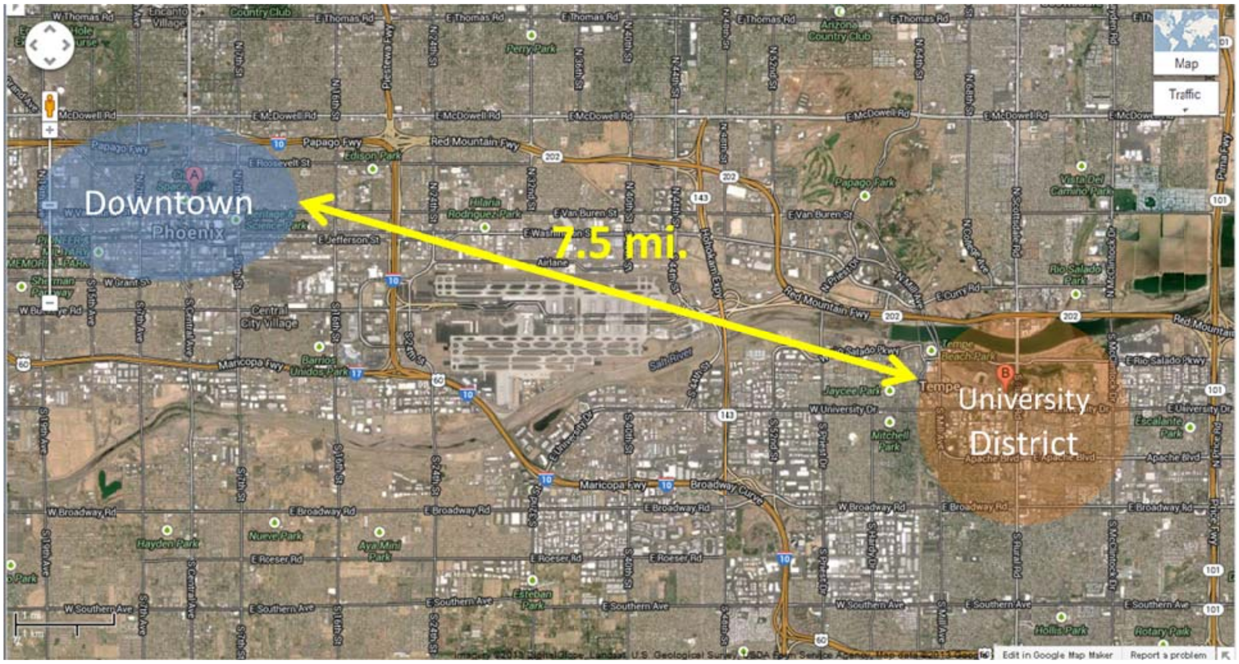


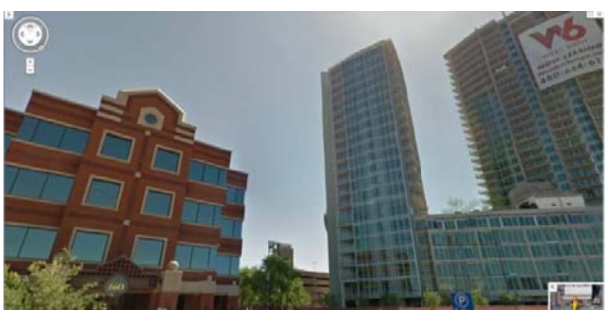


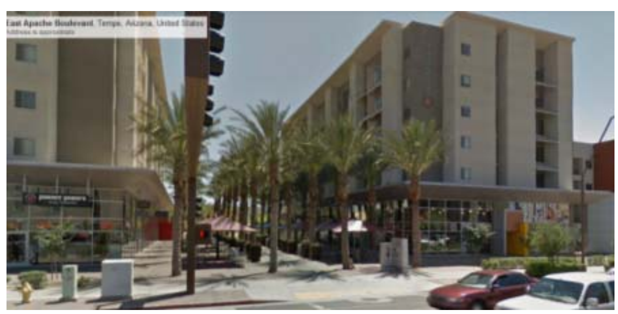


5.1.3 Arizona State University

Enrollment: 60,000
Location: Tempe, AZ
Metro Area Population: 4.3 million







5.1.4 Ohio State University

Enrollment: 60,000

Location: Columbus, OH

Metro Area Population: 2.4 million

6.0 Residential Market Analysis

Although Dinkytown is bordered by residential uses to the west and north, it has historically maintained its commercial character without significant encroachment from other uses. Recently, though, with a very heated housing market, developers have begun to eye strategic properties within the core of Dinkytown for residential development. To better understand this dynamic, this section provides an overview of the residential market in Dinkytown and how this may impact its commercial uses and character.

Map 4 on the following page illustrates the strong growth in residential development in and near Dinkytown. Since 2008, over 1,400 new housing units have been built or are currently under construction within ½-mile of Dinkytown and another 280+ units having been approved for development. Furthermore, if the area is expanded out to one-mile from the Dinkytown, the number of units, built under construction, or approved increases by 1,300.

The following are key observations and factors pertaining to this rapid rate of development:

- According to Marquette Advisors, the Minneapolis submarket that includes Dinkytown had an apartment vacancy rate of 1.4% as of 2nd Quarter 2013. This is an extremely low vacancy rate indicating strong pent up demand for rental housing. The apartment vacancy rate for this submarket has been below 4.0% every quarter since 4th Quarter 2009. Such a long sustained rate of low vacancy alongside significant new development has emboldened many developers to enter the housing market.

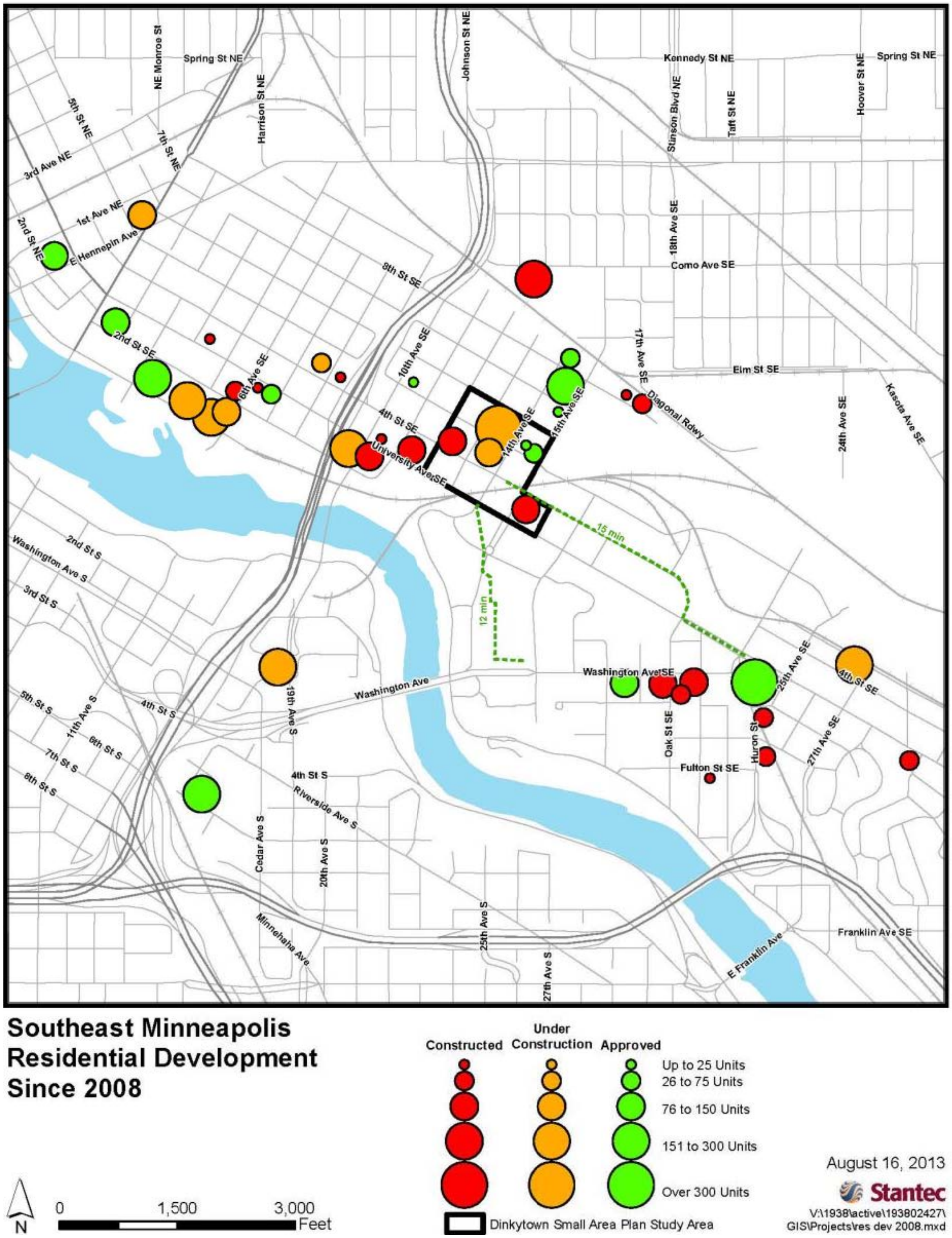
- Residential development within four to six blocks of Dinkytown has been almost entirely student housing.

- Student housing is getting well over $2.00 per square foot in rents. As a result, it often “outbids” other residential types and commercial uses for key sites. However, where visibility and traffic volumes (vehicular, pedestrian, and bicycle) are highest, commercial uses are being reserved on the street level.

- Although new student housing developments continue to be proposed, developers will build until there is market saturation or a lack of economically viable sites.

- The market for student housing has changed in recent years as many students are now accustomed to private rooms and a higher level of amenity not found in older dormitories and apartment buildings.

Map 4: Southeast Minneapolis Residential Development Since 2008



- With the exception of first year students, who are encouraged to live on campus, most students at the University live off campus.

- Residential areas in nearby Marcy-Holmes and Como neighborhoods have experienced a sharp rise in non-Homesteaded properties over the past 10 years as the rising demand for rental housing has resulted in the transition of many owner-occupied properties into rental properties. In order to mitigate this trend, neighborhood organizations have supported, in principle, the construction of new student housing closer to campus as a means to alleviate the pressure on owner-occupied conversions.

7.0 Market Conclusions

The previous sections examined different market factors that influence the economic function and role of Dinkytown as a commercial district. This included a review of Dinkytown's current business profile, consumer markets, competitive districts, built form, and achievable commercial rents. It also included an assessment of the district's trade area, how it will be impacted by the opening of the Green Line LRT in 2014, and which commercial categories pull visitors into Dinkytown from beyond this trade area and which categories may be underrepresented relative to local demand. In addition, the residential market was reviewed to determine its impact on Dinkytown. Below are key conclusions from the previous analyses:

- The market for commercial space is very strong in Dinkytown. The surrounding demographics are very attractive and rents are well above the metro average for retail space. This attracts attention from businesses that can generate the highest sales per square foot (e.g., fast food restaurants and bars). Unfortunately, this puts pressure on long-standing businesses dependent on more modest rents, many of which contribute to the rich and varied mixture of activities currently found in Dinkytown. As a result, businesses that generate the most sales per square foot tend to win out when competing for premium locations. The challenge in Dinkytown is that the market is strong enough and the supply of commercial space is limited enough that even less premium locations, in which businesses with more modest sales per square foot typically can afford, are being occupied by businesses with higher sales per square foot.

- Commercial categories that pull people into Dinkytown from outside its immediate trade area include dining, liquor, personal care products, and tobacco products. Many of the businesses in these categories generate very high sales per square foot and can outbid other types of retailers. As a result, these businesses are well represented in Dinkytown and pull people in from a broad area. Furthermore, many of them can operate efficiently in smaller, unique spaces, and it is smaller, unique spaces that define much of the commercial space on Dinkytown.

- Commercial categories underrepresented in Dinkytown, in which even trade area inhabitants must go outside of Dinkytown to access, include apparel, household furnishings, housekeeping supplies, and groceries. A new grocery store is currently under construction in Dinkytown. Therefore, this need will soon be met within Dinkytown. However, it took the construction of an entirely new building to be able to accommodate this type of retailer. For the other underrepresented categories, these types of retailers perform best in larger format stores with very large trade areas dependent on copious amounts of parking (i.e., suburban locations).

  Nonetheless, as the population of the immediate trade area increases, some of these types of retailers will consider more dense, urban environments with less parking availability provided the demographics are very strong and there is a complement of related retailers to help generate local traffic. Regardless, even when these retailers downsize into more urban environments they typically still need much larger spaces than what can be currently found in Dinkytown. Furthermore, the consuming habits of students have changed in recent years as certain products that used to be regularly purchased at school are now purchased at home. Apparel, electronics, and even textbooks are all likely purchased over the summer when students have access to their parents and income from summer employment.

- Although new residential developments within the core commercial areas of Dinkytown will likely alter the built form and physical character of the district, additional housing will stabilize certain segments of the commercial market by increasing the number of local residents who will support a greater variety of businesses.

- New development in Dinkytown that results in new, modern commercial space may entice more national chains into Dinkytown. Interviews with real estate brokers familiar with Dinkytown indicate that national chain retailers find Dinkytown very attractive but that a current barrier is the lack of newer commercial space that can align better with standard layouts and formats.

- Although the University of Minnesota has added some new retail concepts in the form of a farmers market, strategically located food trucks, and a new fresh food focused dining hall within the new dormitory located at the 17th Avenue SE and 4th Street SE that is open to the public, the bulk of their commercial offerings do not compete directly with Dinkytown businesses. The University's retail offerings are heavily focused on morning and afternoon coffee and fast food options. Furthermore, they are concentrated in Coffman Memorial Union, which is located on the edge of Dinkytown's 10-minute walk shed. On-campus retail shows no signs of negatively impacting Dinkytown other than food trucks

- When the Green Line LRT opens in 2014 it will provide a larger customer base for many Dinkytown businesses, but it will also increase competition for existing customers from the Stadium Village and West bank competitive commercial districts in a way that Dinkytown has not experienced previously. The LRT station areas in Stadium Village and the West Bank will increasingly compete with Dinkytown based on their "newness" and enhanced convenience.

- Given an increasingly competitive environment for customers motivated by the transit conveniences of the LRT, Dinkytown's older character, especially at its core (i.e., 4th Street SE and 14th Avenue SW) could become an increasingly important differentiator once the LRT station areas become more established.

8.0 Economic Development Strategies

Any set of economic development strategies focused on Dinkytown will need to keep in mind that key policy decisions may need to be made to balance the following competing interests:

- **Small businesses**: a sizable proportion of Dinkytown's businesses are small, independently owned, and highly sensitive to rapid changes in rents and customer profiles
- **Property owners**: there are multiple property owners in Dinkytown, who, like most businesses, are trying to maximize their return on investment
- **Intensification of key nodes**: the Minneapolis Plan identifies Dinkytown as an Activity Center, in which a dense mixture of uses in a pedestrian environment is to be promoted

8.1 STRATEGIES FROM THE MARCY-HOLMES NEIGHBORHOOD MASTER PLAN

Recent planning at the neighborhood and University levels has identified a number of economic development strategies for Dinkytown. In particular, the Marcy-Holmes Neighborhood Master Plan, which was first adopted in the early 2000s and is currently being updated, identified the following strategies/goals:

- Preservation of historic, eclectic nature
- Limitation of building height to 4 stories
- No parking lot frontage on 4th Street
- Don't want domination by restaurants and bars
- Allow free parking earlier in the evening
- Support construction of a public plaza over the RR trench
- Support the concept of a Dinkytown parking ramp
- Support preservation designation study
- Commercial uses should not expand beyond 13th, University, 15th and 5th (except UTEC and Chateau)
- Improved services (more foot patrols, snow clearance, liquor license monitoring, and underage drinking enforcement)

8.2 POTENTIAL MARKET DRIVEN STRATEGIES

Although many of the strategies noted in the Marcy-Holmes Neighborhood Plan may still be relevant today, findings from the market analysis presented previously suggest that key market forces should be factored into any set of strategies moving forward. In particular, the market findings strongly indicate that Dinkytown is a location where market demand exceeds the supply of available land. As a result, there is very little vacancy and property is being purchased for significantly more than the value of the underlying businesses/buildings. This makes the economics of Dinkytown fundamentally different than larger commercial districts with a significant supply of commercial land (e.g., downtown) where the issues revolve more around product mix and encouraging activity.

If the market were left unregulated under these conditions, the pressure to redevelop much of Dinkytown will become even stronger and could transform large portions of the Study Area in a relatively short time frame (i.e., within five years or sooner).

In this economic environment, there are some goals from past planning efforts that are in conflict with each other and some that cannot occur without market controls of some kind (zoning, preservation, financial incentives, etc.), which are summarized as follows:

a) Encouraging more diversity of businesses
b) Maintaining the eclectic, independent nature of the district
c) Preserving historic buildings
d) Intensifying key nodes in the City
e) Containing Dinkytown commercial within its current footprint rather than expanding to adjacent blocks

8.2.1 Diversity of Businesses

Some of the past plans refer to the diversity of businesses as an issue of trying to attract other uses. However, based on the market findings that is counter to what is occurring in the Dinkytown market. Because market demand greatly exceeds market capacity (i.e., available acreage/space), rents rise and the uses that can afford to pay the most rent outbid the other uses. Currently, the businesses that have the highest capacity for paying high rents are restaurants and bars. Restaurants and bars (particularly in pedestrian markets) are some of the most location specific of all retail uses and therefore are accustomed to paying high rents in order to be in premium locations. In other words, they will bid out all of the other uses.

It should be noted, though, that restaurants and bars are also predominant uses around most other campus commercial districts because of the unique nature of the student market. Students have limited purchasing power when at school because they do so much advance purchasing when they are at home (i.e., their parents are able to pay). Therefore, clothing, furniture, housewares, and electronics are all likely to be purchased in advance of the student's arrival on campus. When at school, this leaves consumables like food, drink, and drug store items as the predominant types of retail purchases.

Although bars and restaurants have historically been important retailers in campus commercial districts, there also used to be other common uses that also competed strongly for retail space. This included copy centers (e.g., Kinkos), music stores, and campus oriented clothing. Technology has all but eliminated the copy centers and music stores as most students now have many of the same capabilities of a Kinko's in their rooms or at a dorm or apartment computer center. Music stores have been replaced by digital downloads. Even campus oriented clothing has changed with far more outlets for university branded clothing including the University itself, major retailers like Kohls, Target, etc., internet retail and specialty sporting outlets such as Goldy's Locker Room (which is a shopping mall based store that is the official apparel store for the U of M Athletic Dept.). University apparel has become one of those products that students can get their parents to purchase and therefore locating it closer to the parent's residence is as important as locating near the school.

Therefore, if the goal is to increase or maintain the mixture and variety of businesses in Dinkytown, there are two primary options:

1. Put controls on the restaurant/tavern business to either limit them numerically or make them less profitable and therefore less able to pay high rents. (The latter, however, clearly has serious implications to the underlying property owners as well.)

2. Expand the commercial footprint of Dinkytown which will increase the supply of retail space available. This could lower rents for all uses and provide enough space that it no longer can be absorbed largely by only restaurants and bars. Logical expansion areas would include the northwest corner of 4th Street SE and 13th Avenue SE; the public library site, adding depth to existing businesses by replacing the large amount of surface parking with structured parking; and allowing expansion into the block northeast of 5th Street SE and 14th Avenue SE. As with Stadium Village, it may make sense to require first floor retail space in key retail locations so that housing does not outbid the retail.

The easiest way to impact the restaurant/bar market is through limitation of liquor licenses. There are numerous academic studies that demonstrate that the density of drinking establishments adjacent to college campuses encourages additional/excess drinking by college students. In Champaign, IL, for example, limitations on campus area liquor licenses were implemented back in the late 1980's and those limitations remain in force today. Over time, this has transitioned the campus commercial district in Champaign from an area dominated by multiple bars competing against one other to a much more diverse retail area.

8.2.2 Eclectic and Independent Businesses

The existing eclectic and independent business mix is largely due to the difficulties of operating chain businesses in irregular, old buildings that may not meet the minimum standards of a chain business. This reduces the demand for these types of spaces, which lowers the rent generating capacity of these older retail spaces, allowing rents that are low enough for independent businesses to operate (independent businesses tend to have lower profits/rent generating capacity than chain stores due to banking practices and operational efficiencies of large enterprises).

However, chain stores are becoming increasingly savvy about fitting their concepts into unique spaces. Therefore, maintenance of the historic building stock will not guarantee that independently owned businesses won't eventually be outbid for space. However, any such dynamic will be significantly slower since it will necessitate the expiration of existing leases.

In a redevelopment scenario, however, this transition will be relative rapid because the high costs of development in a campus district will require developers to seek higher rents than most independents can afford to pay. In addition, even if rents are equal among independent and chain businesses, the developer's bank will provide more attractive financing terms if the developer puts chain stores because they will be considered a better credit risk.

Any new redevelopment will affect properties that are not undergoing redevelopment as well. As properties are purchased for redevelopment, typically prices significantly exceed previously assessed values. Over time, this causes the assessor to raise the values of properties so that they are being valued on their redevelopment value rather than the value of the underlying business operation. This increases property taxes (which are passed on to tenants, decreasing an independent business's ability to remain profitable) and also puts a value in front of the underlying property owner that provides a "wealth effect" that can cause several steps that will increase the probability that the property owner will seek redevelopment.

8.2.3 Preserving historic buildings

Although the issue of historic preservation is addressed directly elsewhere in this plan, it is at the core of the market/economic development issue as well. There currently is a particular character to Dinkytown that differentiates it from the other competitive retail districts. A lot of this character is driven by the current buildings and the eclectic businesses that are willing to occupy these buildings.

If they were found to be preservation worthy, then the character will continue (although as mentioned before, there will still be a slow conversion to more savvy chain stores). New infill buildings on non-significant parcels can be made to support the historic character with design standards and other strategies if this is desired.

If there is no regulatory control to preserve the existing stock of older buildings, many will likely be torn down in a relatively rapid rate, given current market forces. Dinkytown is a very small district and it will not take too many teardowns of key sites to permanently alter the character of the district. There is likely debate on both sides of such an issue as to whether that would be a good or bad character change, but just from an economic development perspective, there has to be a certain critical mass of "character" locations to make a district marketable as a character district. It would not take too many projects, if located in certain spots, to remove that critical mass of character locations. If this were to be the case, Dinkytown will then cease to function as a character district and instead be a retail location that might have a few isolated, interesting, old buildings.

8.3 OTHER POTENTIAL STRATEGIES

Although the Marcy-Holmes Neighborhood Master Plan identified an extensive set of strategies for Dinkytown, other possible strategies that have been employed in similar commercial districts include the following:

- Special service district for higher service levels (would help organize and formalize the goals identified in the Marcy-Holmes Neighborhood Master Plan):
    - Maintenance of public realm
    - Increased foot patrols

- Aging Infrastructure upgrades

- Structure of relationship with University & competing districts
- University/Dinkytown mentorship
    - Establish two way beneficial relationship
    - Business, planning, design
- Alcohol policies
- Financial assistance tools for maintenance of aging properties and facades
- Formalized (regulatory) protection of historic or architectural character
- Parking turnover strategies

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October 25, 2013