South Robert Street Gateway Market Study

Report Description

Prepared for:
Dakota County Community Development Agency
and
City of West St. Paul

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PROJECT BACKGROUND

The Dakota County Community Development Agency (CDA) and the City of West St. Paul engaged Stantec to determine the market demand and redevelopment potential within a study area defined as the "Gateway" block, which consists of several parcels that straddle the west and east sides of South Robert Street between Annapolis Street and Haskell Street.

South Robert Street is a major commercial corridor and thoroughfare that bisects the City of West St. Paul. A major reconstruction of the street is planned for 2015 and 2016, which will alter transportation patterns and access points to and from study area properties.

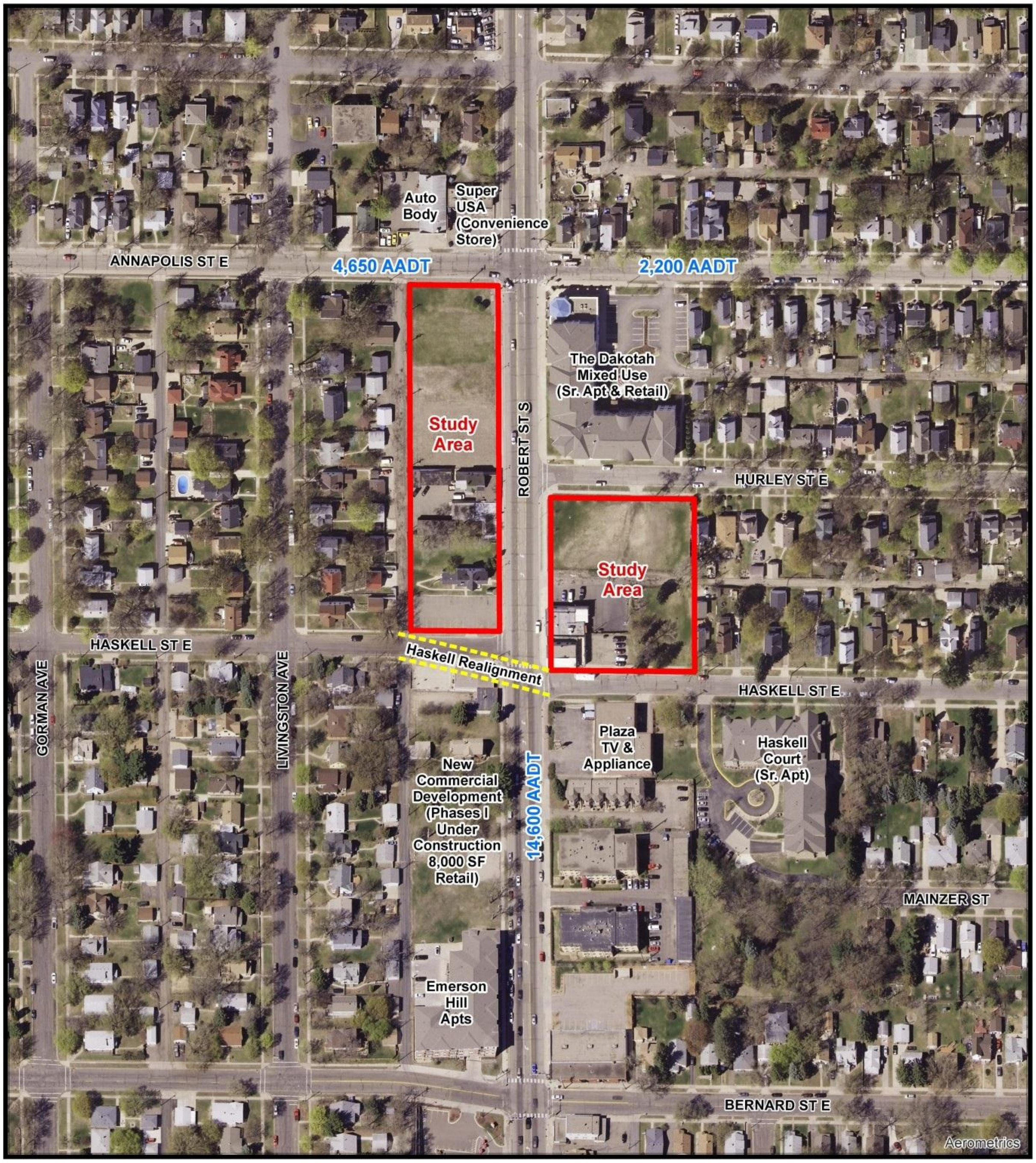
As a Gateway to the City of West St. Paul, the study area is an important component to the on-going revitalization process of this section of the South Robert Street. Understanding the market potential for the study area will assist the CDA and the City of West St. Paul in their attempts to plan for anticipated growth, target specific development opportunities, and create a foundation for partnerships in the ongoing revitalization process.

SITE ANALYSIS

Although the study area is located along a prominent commercial corridor, it is situated within an established residential neighborhood consisting mostly of modest, well-maintained single-family homes. The portion of the study area west of South Robert Street is rectangular in shape and 1.74 acres in size. The portion east of South Robert Street is roughly square in shape and is 1.44 acres in size.

The study area is an excellent location for multifamily housing given its central location within the region, access to high-frequency transit, walkability, proximity to shopping further south along Robert Street, and proximity to employment in downtown St. Paul.

As a location for commercial development, the study area benefits from good traffic volumes along South Robert Street as well as many of the reasons that make it a strong multifamily location. However, there are some site challenges that would need to be overcome to make it a viable commercial location: 1) it is located more than a mile north of where most of the retail is concentrated along South Robert Street, and, therefore does not benefit from the traffic generated by some the large retailers in that area; 2) the lot depth, particularly on the west side of Robert Street, will be difficult to accommodate parking; and 3) despite the underlying pedestrian scale of the area, there is no place of interest or focal point to help attract visitors.



Study Area Map

West St. Paul Gateway Market Study

June 20, 2014

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Stantec

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Stantec

MULTIFAMILY HOUSING MARKET

Based on a review of demographic growth trends, residential construction trends, and the condition and supply of competitive developments, the study area is well positioned to capture certain segments of the multifamily housing market both in the short-term and long-term. The following are key conclusions pertaining to the multifamily housing market:

- The study area has several advantages that make it a strong location for multifamily housing. First, it is centrally located within the metropolitan region with relatively easy access to the highway network. Second, it has convenient access to high-frequency transit (with the potential for enhanced transit service). Third, it is in close proximity to a major shopping district further south along Robert Street. Finally, it is in close proximity to downtown St. Paul with its concentration of over 40,000 jobs.
- Despite the advantages of the study area's location, some prospective residents, especially those with young children, may consider Robert Street a safety hazard due its volume of traffic. However, the pending reconstruction of Robert Street will create a safer pedestrian environment with improved lighting and crossing zones at intersections. Moreover, there are many examples of successful and highly desirable residential properties along similar roadways throughout the metro area.
- Demographic trends are contributing to increased demand for multifamily housing, especially rental housing. Traditional target markets for multifamily housing (households under age 35 and over age 65) are growing rapidly. In particular, the Baby Boom generation which is beginning to reach early retirement years will dramatically increase the number of households looking to downsize from a single-family home and consider more maintenance-free living options.
- After years of experiencing nominal growth or even decline due to minimal new development and limited household turnover, much of the housing market area is expected to add a significant number of new households, which will fuel demand for more housing options. Some of this forecasted growth is also the result of emerging trends of increased demand for urban living driven by a desire to live in amenity-rich neighborhoods that are walkable and have good transit access.
- Dampening the demographic demand for multifamily housing in the market area are the overall lower household incomes, especially among the neighborhoods most proximate to the study area. As a result, it may be difficult to achieve the level of rent or pricing needed to support new construction unless there is a funding source than can help cover any gap between pricing and costs.
- The rental market is currently very strong. Vacancy rates in the housing market area are near historic lows (under 3%) and rents have been steadily rising in response to constrained supply. Low vacancy and rising rents are indicators of pent-up demand in the market and often signal strong opportunity for new development.

- Although some submarkets within the metro area are being watched closely for signs of overbuilding in the rental market (e.g., downtown Minneapolis), new construction is only beginning to occur in other parts of the metro area and all indications suggest that the market outside of downtown Minneapolis and a few select neighborhoods will continue to remain strong into the foreseeable future.
- Although downtown St. Paul and the West 7th neighborhood have experienced new apartment construction, other portions of the market area have not experienced any significant new market rate apartment construction in over 25 years (with the exception of the 35-unit Emerson Hill property, which was originally marketed as a condominium only to be converted to an apartment after financial restructuring). This suggests that many of the directly competitive properties are likely dated and lack many of the features and amenities desired by today's renters.
- Ownership forms of multifamily housing (i.e., condominiums and townhomes) are beginning to finally rebound after a severe bust during the recent recession dropped values by as much 40% in the market area. Although demand fueled by Baby Boomers and years of little to no new development will eventually result in enough demand to support new construction in the market area, the market still needs to recover more before that will occur.
- Calculated demand for multifamily housing in the study area through 2020 suggests that up to 70 units of market rate rental, 200 units of affordable rental, and 50 units of condominiums/townhomes could be supported.

Recommendations

Based on the market findings presented above, we believe there is demand to support new rental housing in the study area. According to demand calculations that take into consideration demographic trends and the supply of pending developments, we anticipate that the study area could support between 50 and 70 units of market rate housing with the potential for more units provided rents could be held to rates slightly below what is found at comparable newer properties.

Based on a review of comparable properties, we believe achievable market rate rents in the Study Area would be between $1.25 and $1.30 per square foot, which is well above most of the rents found at other top properties in northeastern Dakota County. These rents assume that a new development would have quality finishes and amenities on par or exceeding other top properties in Dakota County, which also means higher construction costs. Therefore, a more detailed financial analysis would be necessary to determine whether a project could be developed without significant public assistance. The amenity of most concern would be structured parking, which is necessary for almost all new rental housing built today, yet often cannot be built without significant public assistance.

In terms of unit mix (i.e., the ratio of large unit types to small unit types), it is recommended that a market rate rental component consist of roughly 5% studio units, 45% one-bedroom units, 40% two-bedroom units, and 10% three-bedroom units. This mix reflects a trend toward smaller unit types and gap in the local market. Furthermore, a range of unit options will appeal to the widest market possible, which can contribute to faster absorption and mitigate normal market vagaries.

A new rental property with modern features and amenities will provide needed choice in the market area, especially in northern Dakota County where many of the market's top properties are more than 20 years old and, despite the potential for upgrades, lack certain features and amenities desired by today's lifestyle renter. Modern layouts with open floor plans, large windows, kitchen islands, well-appointed common areas, and dedicated dog runs are examples of features being designed into new properties in order to attract renters. Although new supply can potentially have a negative impact on older established properties, it can also incentivize older properties to make necessary upgrades and investments needed to maintain viability.

With respect to the demand for affordable rental housing in the study area, our calculations reveal a very deep level of pent-up demand in the market area. Although affordable rental housing is typically in high demand, regardless of location, we believe that the study area is really well positioned for affordable types of housing given its transit advantages and access to retail and other services. The inclusion of an affordable rental component along with a market rate component could help bridge any potential financing gap in the development. There have been numerous local examples that have seamlessly blended these components into a single development.

On the for-sale side of the market, there are strong indicators that the condominium and townhome market is beginning to revitalize, which is good news. However, pricing remains low enough that it is still too soon to justify a new project in the study area. Therefore, we would not recommend a condominium or townhome development as part of a first phase of the development. However, as the project progresses and the for-sale market improves integrating a for-sale component would help broaden the market base and create for a more diverse district and help with absorption.

Pricing of any new ownership product in the study area should only slightly exceed the median sales price of the market area because most of the demand for ownership product will come from existing residents wanting to make a lateral move from a single-family home in order to downsize. Therefore, we believe achievable pricing would be between $140,000 and $180,000. However, given construction costs, this level of pricing is likely not able to support development without some level of gap financing.

RETAIL MARKET

Although the study area has excellent visibility along South Robert Street, there are a number of significant site and market challenges that would need to be overcome in order to support a successful retail component. The following are key conclusions from the analysis:

- Many traditional brick-and-mortar retailers are discovering that they have to sell an experience as much as a good or service due to competition with the internet. Places that are at a human scale, such as the study area with its pedestrian and transit accessibility, have an inherent advantage over places that aren't at a human scale when it comes to selling an experience.

- Despite the underlying human scale of the study area and its environs, it currently lacks a place of interest. To some degree, recent nearby development contributes to a sense of place with multistory structures built to the street front at a pedestrian scale. However, there still lacks a critical mass to create such an environment and to do so will require substantial new construction. Older neighborhoods that leverage their inherent human scale often do so through the renovation or rehabilitation of older buildings with some sort of architectural charm or character, which is usually much less expensive than new construction. Unfortunately, the study area lacks these types of properties and, therefore, any sense of place must be achieved through new construction.
- Another challenge to overcome with the location of the study area is the depth of the lot. West of Robert Street, the lot is only 140 feet deep, which makes it very difficult to accommodate necessary on-site parking. This becomes even more critical when one considers that the changes to the Robert Street roadway will likely necessitate having to accommodate on-site surface parking in some form or another for any significant concentration of commercial uses. Compounding the challenge is that one of the strengths of the location is a human scale in which pedestrian-orientation will need to be protected at least and augmented at best. However, under such conditions, parking cannot be a dominant use and needs to be artfully incorporated into the site without detracting from the pedestrian character. To do this, though, would require a whole host of creative solutions, such as sharing parking among users, structuring the parking to minimize its footprint, and clearly marking where parking is located and how to reach it. All of which add expense that typically can only be overcome with very high rents.
- The main concentration of retail that people generally associate with South Robert is well over a mile south of the study area and the development pattern in that part of the corridor is much more conducive to attracting shoppers who travel by car, which serves to widen its trade area, whereas the study area is more conducive to shoppers traveling by foot, bicycle, or transit, which generally constricts the trade area.
- Current and recent attempts to fill active retail space near the study area have been very challenging at best. The Emerson Hill Center, which is under construction one block south the study area, has been unable to find a qualified tenant after several years of marketing the property. As a result, initial attempts to attract traditional retailers have shifted to retail-service users or medical-service users, neither of which has yielded a tenant. Also adjacent to the study area is commercial space in the ground floor of the Dakotah Apartments. Brokers that have marketed that space also commented on the challenges of the local market, which include mostly independent, start-up businesses that cannot afford the rents and many times do not have the credit history needed for a standard lease.

- The proximity of large-scale retail further south along South Robert generally means that only small-scale retail that primarily serves local residents can be supported in the northern sections of South Robert.
- The northern portions of South Robert, where the study area is located, does not have an anchor or large-format retailer to help generate traffic levels that can support ancillary small scale retail, the likes of which would be in the study area. The most recent traffic counts along South Robert show that volumes are highest about a 1½ mile south of the study area but then drop by over 40% closer to the study area.
- Incomes in the retail Trade Area are nearly 30% below metro area incomes. This has a significant impact on the spending power of Trade Area households.
- According to demand calculations based on Trade Area households and workers, there is a substantial oversupply of existing retail space in the Trade Area. This is corroborated by the fact that new retail space near the study area has been unable to be filled despite active marketing. Some of the existing supply of retail space will undoubtedly convert to other uses once Robert Street is reconstructed because of the loss of on-street parking and more limited access. Therefore, potential will exist to capture demand created by displaced businesses. However, the potential is limited because much of the marginal retail space that currently exists is occupied by businesses that can only survive in very low rent spaces. Nevertheless, the reconstruction of South Robert Street will result in shifting market dynamics along the Corridor that will present opportunity for new development in the study area.

Recommendations

For the reasons noted above, identifying adequate demand for new retail space in the study area will mean addressing significant market barriers. For instance, in order for the study area to function as an important retail node, it will need a major traffic generator, such as a grocery store or other sizable retailer. This would mean designing a substantial parking component that would accommodate this retailer. However, this would also likely mean abandoning the form and style of development that gives the study area any market appeal in the first place, namely its pedestrian-scale.

If the pedestrian scale of the study were to be preserved and leveraged, then investments in place making would need to be very significant and on a scale that would make the study area a destination that would extend its trade area well beyond its current size. This would mean incorporating a lot of space and design into the public realm that would not only be along the edges of each site but also throughout each site as well. In some ways the reconstruction of Robert Street could contribute to this level of development if the streetscape is of a sufficient design. However, a street reconstruction by itself will not be enough investment to spur this type of development.

Examples of amenities that have been included in other smaller-scale retail districts that enhance value and help attract visitors include public art, monument signage, plazas with a prominent feature, innovative stormwater treatments, benches, tables, parklets, attractive lighting, greenery (trees, flowers, shrubs, etc.), fountains, etc. Visual examples of these amenities are included in the Conclusions section of the report

In addition, parking that would complement and not counteract a pedestrian-oriented development would have to be integrated into the site in a seamless manner. Important considerations for dealing with parking in an urban environment where space is at a premium include the following:

- **Signage** directing visitors to public parking areas will be essential because access to the study area will require turning off of South Robert Street at either Annapolis Street or Haskell Street.
- **Stormwater treatment** integrated into parking areas through use of pervious pavers, rain gardens, or tree islands can break up the monotony of traditional parking lots, help direct visitors to their destination, and improve pedestrian safety.
- **Shared parking strategies** will be critical because the study area is small enough that too much area devoted to parking will overwhelm any development. Mixing of uses can provide opportunities for users to share common parking areas and thus limit the need for parking. For example, restaurants have peak parking needs during evening hours, whereas offices have peak needs during daytime hours and housing has peak needs overnight. Although a common structured parking facility adjacent or incorporated into any housing component can help address shared parking goals, space identified for retail or office users would need to be clearly marked, easy to access, and be free. Furthermore, due to the resistance of many shoppers to use parking structures, it may be necessary to accommodate a certain amount of surface parking with some of the elements noted above.

A primary challenge to enhancing the pedestrian environment with amenities and/or the sensitive treatment of parking is that they are often very costly, which requires either high rents on the part of tenants or significant public support or both. Adding to the challenge is that the surrounding neighborhoods, which will be a foundation for any retail demand in the study area, have lower incomes. This means that until development in the study area can appreciably attract visitors from beyond the local trade area, rents will be modest and likely not high enough to support most types of new construction, much less any significant amount of amenity. The amount of public support needed to close any gap in development will require, at minimum, a basic pro-forma, which is beyond the scope of this analysis.

Provided amenity can be introduced into the study area, we believe up to 12,000 square feet of commercial space could be supported because of a larger trade area and the potential to capture demand currently being met by retailers who will likely need to relocate once South Robert Street is reconstructed. With that being said, it should be anticipated that initial interest in the location will still be dominated by independent retailers who will likely require some form of assistance or rent reduction in order to occupy any space. For more established retailers who could afford rents in new construction, their interest will come once the development is fully realized and the market has been tested.

If significant amenity cannot be introduced into the study area, then we believe there is little demand for additional retail given the poor performance of newer retail space near the study area. Under this scenario, we would recommend focusing development in the study area almost entirely on housing. If it is important to include some type of retail in the study area because of a goal to have greater activity along South Robert Street and to provide more retail opportunities for local residents, we would recommend keeping the amount of space modest (no more than 3,000 to 4,000 square feet).

Any retail uses should be oriented to an intersection, preferably one that is signalized to help capture more motorist attention. We would recommend the southwest corner of Annapolis and Robert because of the presence of a traffic signal, the slightly higher traffic counts along Annapolis, and the existing retail space at the intersection. We would also recommend that it be designed to easily accommodate a restaurant. Food is becoming increasingly important because of its social and experiential elements. Furthermore, there are very few non-fast food restaurants further south along Robert Street and there is a measurable gap of sit-down restaurants in the trade area. Moreover, if a restaurant component is incorporated into the development, we would highly recommend making sure that patio or sidewalk seating is not only allowed but encouraged. This will help attract restaurateurs and diners.

We would strongly caution against developing retail on both sides of South Robert Street. The east side of South Robert Street does not have a signalized intersection at Haskell Street making pedestrian crossings more hzardous. Furthermore, without a signal at Haskell Street, shoppers will have a difficult time making left turns from or onto South Robert Street. Therefore, from an access standpoint, the parcel on the east side of Robert Street would be more appropriate for housing.

Unfortunately, the challenge for the parcels on the west side of Robert Street is that they are currently only 140 feet deep, which would make the accommodation of parking for difficult. If additional parcels can be acquired on the west side of Robert Street, thus allowing for greater depth, this would open up more possibilities for development. Under this scenario, we would recommend starting on the west side first since the amenity needed to support the retail component can be complemented by a housing use as well, especially if there a parking structure is incorporated into the development. Furthermore, with a west side development occurring first, this would help frame the Annapolis Street intersection with the Dakotah building and help create a more visually inspiring environment.

OFFICE MARKET

Challenges in the broader office market will make it difficult to support any significant amount of office space in the study area. The following are key findings from the office analysis:

- Office space needs among many employers are changing. Given technology changes, post-recession cost cutting, and shifting work styles, employers are decreasing the amount of space per employee. This is decreasing the overall demand for office space.
- The office market along Robert Street and in northeastern Dakota County is dominated by small office users who have businesses that cater primarily to local markets. These include mostly professional service and medical firms, such as lawyers, accountants, financial planners, real estate agents, insurance agents, dentists, chiropractors, opticians, physical therapists, etc. These businesses often seek out quasi-retail locations because their clients benefit from the convenience and accessibility of these types of locations.
- The vast majority of office space along South Robert is concentrated in the southern end of the corridor near the concentration of retail.
- Office vacancy in northeastern Dakota County has been climbing slightly in recent years and the rents have been declining. Therefore, the market fundamentals would not suggest that the market is ready to support additional office development.
- The downtown St. Paul office market remains very soft, and given its size this has impacts on the study area. First, it means that many properties in the downtown are providing significant concessions, which pulls businesses out of Class C and B space into Class A, thus creating a competitive hole in the market that would compete with any office space in the study area. If conditions were reversed, the study area could potentially become a viable “back-office” of the downtown market. However, there is far too much vacant inventory in the downtown for this dynamic to occur.
- Based on calculated demand for office space in West St. Paul, it is estimated that the study area could capture up to 6,000 square feet of space through 2020.

Recommendations

Given the amount of calculated office demand, we recommend planning for a small office component to complement other uses in the study area. However, if the development is phased, we would recommend waiting until a later phase. Most office users looking for location along or near Robert Street will likely be small businesses with a customer base that is local and quasi-retail in nature. Therefore, we think that existing vacant retail space in the Emerson Hill Center may very well absorb some of this office demand.

1.0 INTRODUCTION

1.1 PROJECT BACKGROUND

The Dakota County Community Development Agency (CDA) and the City of West St. Paul engaged Stantec to determine the market demand and redevelopment potential within a study area defined as the “Gateway” block, which consists of several parcels that straddle the west and east sides of South Robert Street between Annapolis Street and Haskell Street. South Robert Street is a major commercial corridor and thoroughfare that bisects the City of West St. Paul.

The study area is located in the northern portion of the City near its border with the City of St. Paul. Although there are numerous examples of new development both in the study area and nearby along South Robert Street, much of the study area was originally developed well over 50 years ago. Therefore, many of the properties in the study area slowly became economically obsolete as transportation patterns and technologies evolved over time and newer, more competitive commercial properties were developed further south. Furthermore, a major renovation of South Robert Street is planned for this section of the study area in 2015 and 2016, which will further alter transportation patterns and access points to and from study area properties.

As a Gateway to the City of West St. Paul, the study area is an important component to the on-going revitalization process of this section of the South Robert Street corridor. It is situated within the fabric of an established neighborhood with a mixture of uses, including single-family homes, townhomes, apartments, small office buildings, and other neighborhood-oriented retail. Therefore, redevelopment of the study area not only represents an opportunity to introduce highest and best uses for the area, but also to enhance the surrounding neighborhood and serve as a catalyst for additional investment.

Understanding the market potential for the study area will assist the CDA and the City of West St. Paul in their attempts to plan for anticipated growth, target specific development opportunities, and create a foundation for partnerships in the ongoing revitalization process. Most types of land uses will be considered as possible development opportunities. Therefore, evaluation of retail services, office uses, and various types of multifamily housing will be assessed for its current and long-term development potential within the study area. Particular attention will be given to the imminent transportation changes planned for South Robert Street which would include the introduction of any right-of-way amenities or improvements that may enhance or detract from each site’s development potential. Additional attention will also be given to how the proposed transit improvements along South Robert Street may affect long-term development potential of the three sites as well.

1.2 REPORT STRUCTURE

The report is organized according to the analytical steps needed to complete the study. Chapter 2 is an evaluation of the locational characteristics of the study area, both at a regional and local level. Chapter 3 is an overview of important socio-economic trends influencing the study area. Chapters 4 through 6 each address specific real estate sectors and the market demand associated with each and their impact on study area. Chapter 7 summarizes findings from the preceding chapters into conclusions and recommendations regarding the scale, scope, market position, and phasing of future development opportunities in the study area.

1.3 DATA RESOURCES

This study represents a compilation of data gathered from various sources, including the properties surveyed, local records, and interviews with local officials and real estate professionals, as well as secondary demographic material. Although Stantec judges these sources to be reliable, it is impossible to authenticate all data. The analyst does not guarantee the data and assumes no liability for any errors in fact, analysis, or judgment. The secondary data used in this study are the most recent available at the time of the report preparation.

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

2.0 LOCATION ANALYSIS

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

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

2.1 METROPOLITAN CONTEXT

Growth History

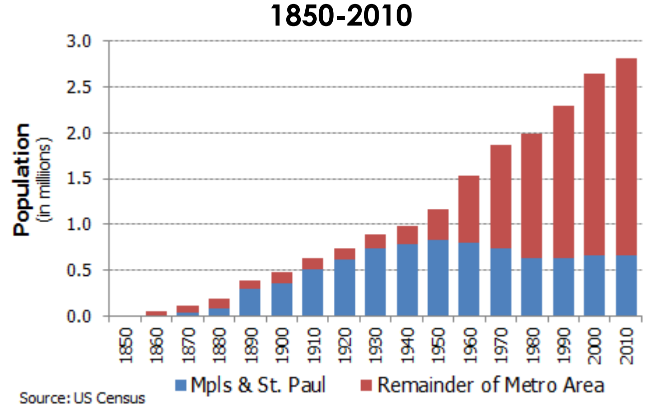
The Twin Cities began to grow in earnest during the 1850s and 1860s. Saint Paul was the head of navigation along the Mississippi River and developed as a river port for goods being transported to and from the south. Minneapolis grew industrially by harnessing the power of St. Anthony Falls just a few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

The industry of the early Twin Cities relied on Minnesota's natural resources. Forests supplied much of the lumber that helped build distant cities like Chicago and St. Louis. Agribusiness later assumed a greater importance economically, as virgin forests grew scarce after 1910. Aided by railroad development during the late 1800s, a grain and flour milling empire was established in the Twin Cities. Minneapolis became a destination point for grain distribution throughout the Upper Midwest and was the largest flour-milling city in the world from the 1880s to the 1920s.

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

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

Figure 1: Twin Cities Metropolitan Population 1850-2010

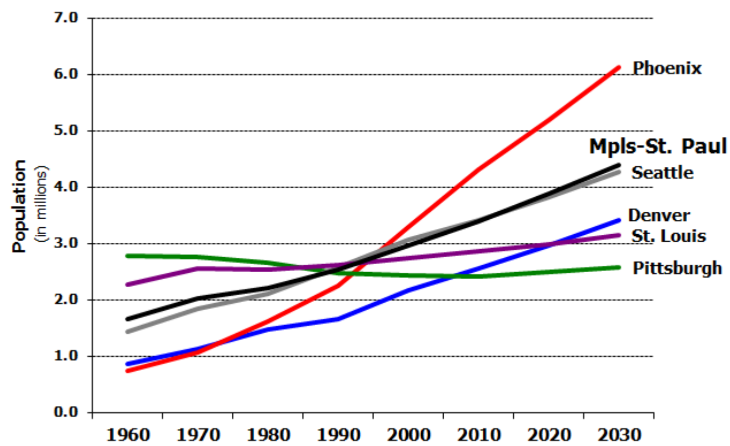


Source: US Census

Economy and Business Culture

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

Figure 2: Metropolitan Growth Comparisons 1960-2030



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

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

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

Table 1: Fortune 500 Companies Based in the Twin Cities

Company	Rank	Company	Rank
United Health Group	22	Land O'Lakes	210
Target	38	Xcel Energy	246
Best Buy	53	Ameriprise Financial	248
Supervalu	75	C.H. Robinson	259
CHS	78	Mosaic	268
3M	102	Thrivent Financial	332
U.S. Bancorp	132	Ecolab	365
Medtronic	164	St. Jude Medical	437
General Mills	181	Nash-Finch	498

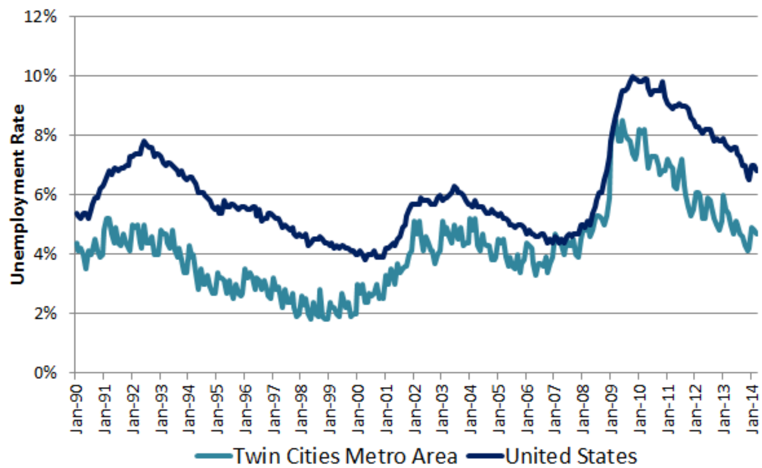
Source: Fortune Magazine, 2013

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

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

This high degree of economic diversification has kept the Twin Cities unemployment rate at relatively healthy levels. Since 1990, the unemployment rate in the Twin Cities has consistently averaged two to three percentage points below the national rate (Figure 3). Although the recent recession has pushed unemployment rates to their highest rate in 30 years, the Twin Cities region has experienced an impressive recovery since early 2009, likely the result of its diverse economy. This is also evident from data presented in Table 2. According to the Minnesota Department of Employment and Economic Development, the Twin Cities Metro Area added nearly 53,000 jobs between 2010 and 2013, with the strongest gains occurring in the Professional Services and Health and Education industry sectors.

Figure 3: Regional and National Unemployment Rate 1990-2013



Source: Minnesota Department of Employment and Economic Development, *Local Unemployment Statistics (LAUS)*

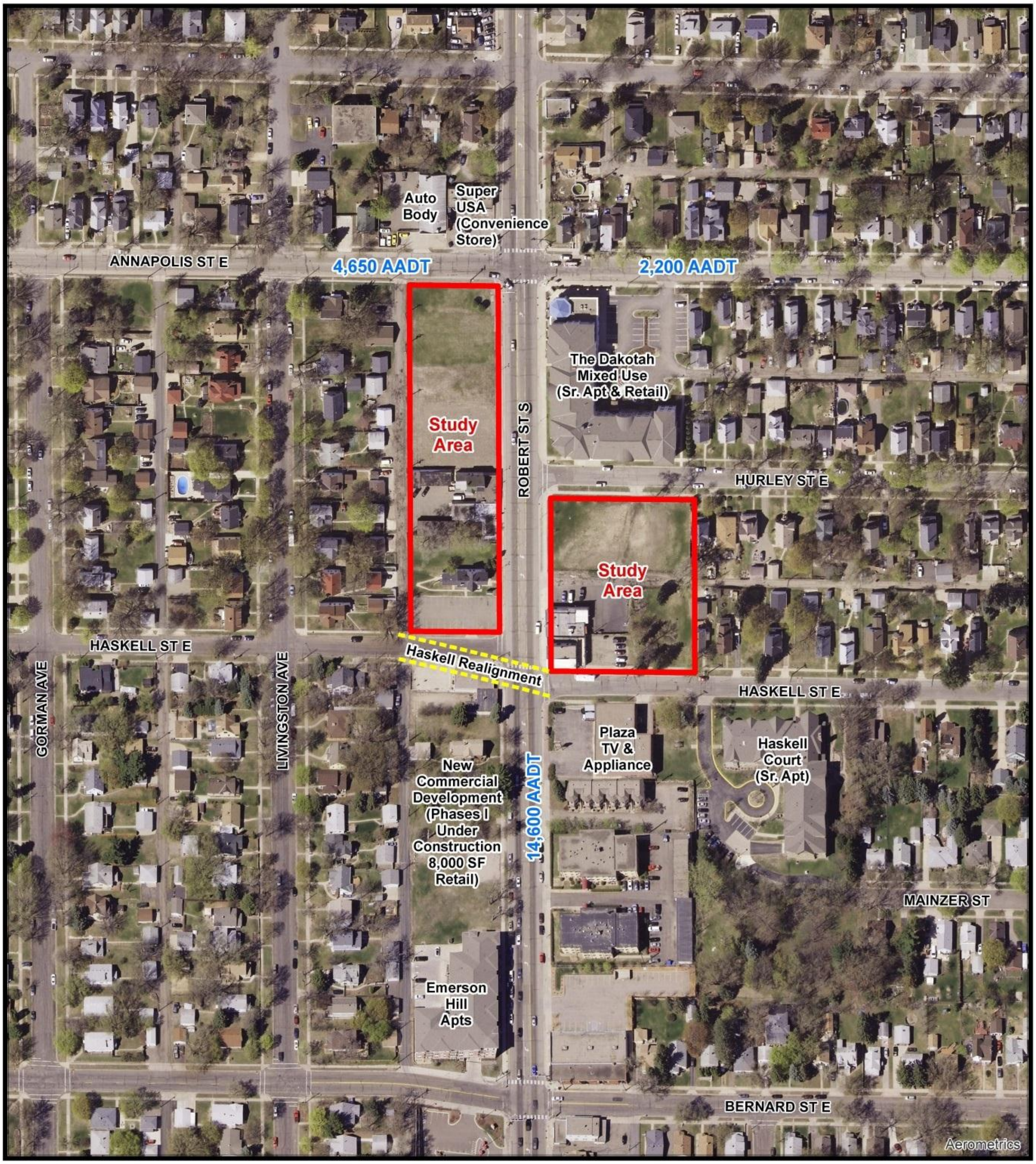
Table 2: Employment by Industry, Twin Cities Metro Area, 2007, 2010, and 2013

INDUSTRY SECTOR	Twin Cities Metro Area 2007	2010	2013 Q3	Change 2010-13 No.	Pct.	Distribution Twin Cities	US
Natural Resources & Mining	3,490	3,432	3,795	363	10.6%	0.2%	1.5%
Construction	71,463	49,751	56,429	6,678	13.4%	3.5%	4.5%
Manufacturing	182,469	156,439	162,571	6,132	3.9%	10.1%	9.0%
Trade, Transportation, & Utilities	326,507	293,964	299,889	5,925	2.0%	18.6%	20.0%
Information	44,017	40,796	40,667	-129	-0.3%	2.5%	2.2%
Financial Activities	136,041	130,773	136,886	6,113	4.7%	8.5%	5.7%
Professional & Business Services	258,483	247,930	268,139	20,209	8.2%	16.7%	13.7%
Health & Education Services	322,444	341,284	362,435	21,151	6.2%	22.5%	23.2%
Leisure & Hospitality	154,821	148,086	158,772	10,686	7.2%	9.9%	11.1%
Other Services	54,965	52,055	53,833	1,778	3.4%	3.3%	3.5%
Public Administration	65,785	67,409	66,643	-766	-1.1%	4.1%	5.6%
Total, All Industries	1,620,485	1,531,919	1,610,059	78,140	5.1%	100.0%	100.0%

Sources: Minnesota Department of Employment and Economic Development; Stantec

2.2 SITE DESCRIPTION

The study area consists of two sites that straddle South Robert Street in West St. Paul near its northern border with the City of St. Paul. The larger of the two sites is located on the west side of Robert Street and extends between Annapolis Street on the north and Haskell Street on the south. The site consists of 1.74 acres, is rectangular in shape, and has an area dimension of 140



Study Area Map

West St. Paul Gateway Market Study

June 20, 2014

N

0 200 400 Feet

Stantec

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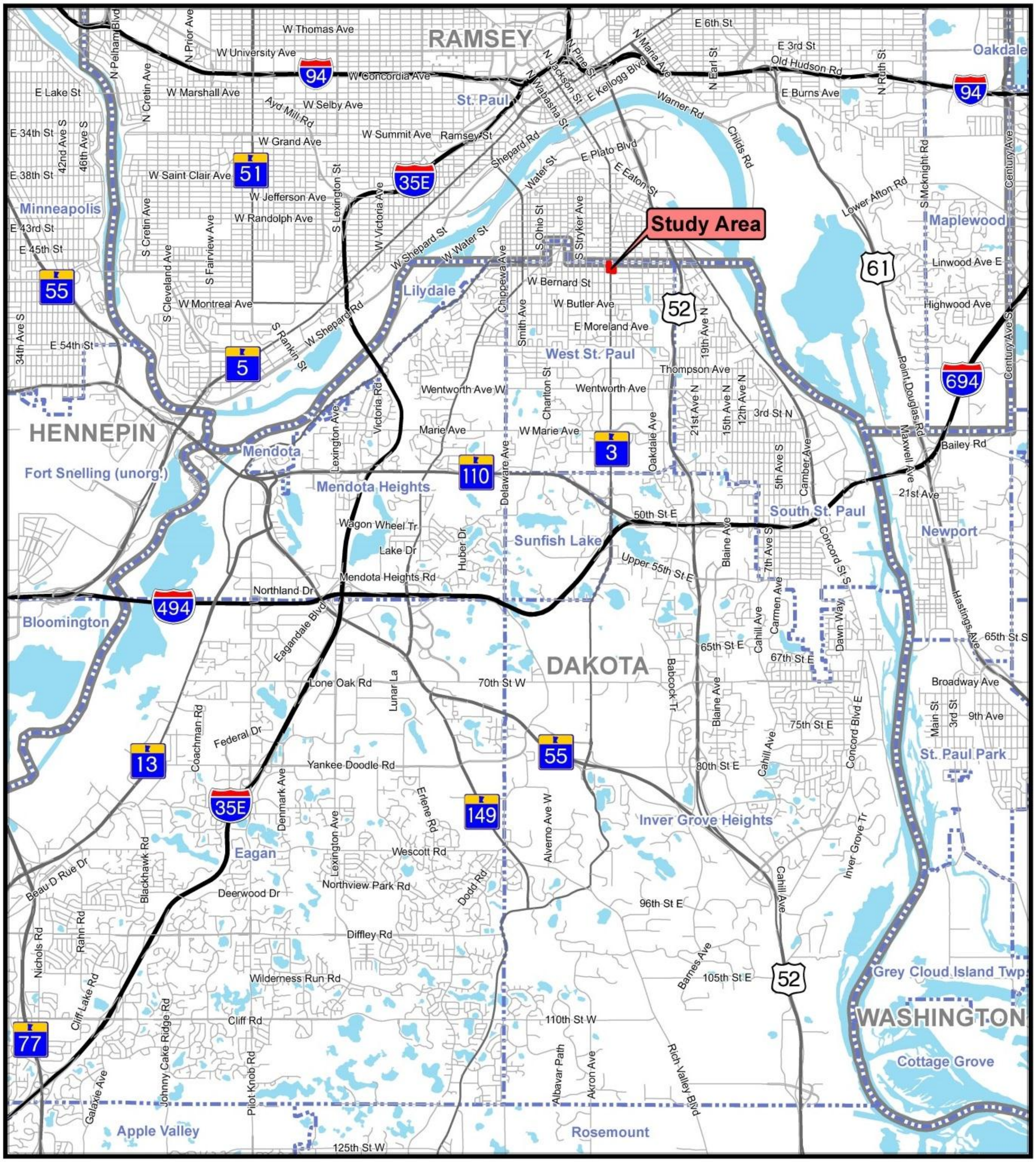

Regional Context

West St. Paul Gateway Market Study

June 20, 2014

N

0 1.5 3 Miles

Study Area

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V:\1938\active\193802725\GIS\Projects\Regional Context.mxd feet by 543 feet. The site has been cleared of any previous development and is currently vacant. Topography is generally level and at street grade with a slight downward slope to the north. An alley forms the western border of the site, which provides interior access to the site and separates it from adjacent single-family homes.

The second, slightly smaller, site is on the east side of South Robert Street and extends between Hurley Street on the north and Haskell Street on the South. It is 1.41 acres in size, is roughly square in shape, and has an approximate dimension of 250 feet by 250 feet. The southwestern quadrant of the site contains a vacant commercial building while the remainder of the site is vacant. It is assumed that the existing commercial structure will be razed as part of any redevelopment. The topography of the site is generally level, though there is a slight downward slope to the north. There is an east-west alley that bisects the site with access onto South Robert.

Figure 6: Views of the Study Area West of South Robert Street

Looking north along alley that forms the western border of the study area

Looking north from Haskell Street

Looking northwest from the corner of South Robert and Haskell Street

Looking south from Annapolis Street

Figure 7: Views of the Study Area East of South Robert Street

Looking southeast from South Robert Street and Hurley Street

View of the alley that bisects the site looking east from South Robert Street

Looking northeast from across Haskell Street

Looking east from South Robert Street at the existing commercial building

Figure 8: Views of Commercial Properties near the Study Area

The Dakotah Apartments looking north from South Robert and Hurley Streets

Commercial space at the Dakotah Apartments, SE corner of South Robert and Annapolis Streets

Commerical business in former residence at South Robert and Winona Streets

Convenience store at NW corner of South Robert and Annapolis Streets

Appliance repair business at the SE corner of South *Robert and Haskell Streets*

Twin Pines Condominiums (east side of Robert Street between Haskell and Bernard Streets)

Commercial building at NE corner of Robert and Bernard Streets

Commercial building at SE corner of Robert and Bernard Streets

Former restaurant at SW corner of South Robert and Bernard Streets

The Emerson Hill Apartments at South Robert Street and Bernard Street

Commercial space under construction on west side of Robert Street between Haskell and Bernard Streets

2.3 TRAFFIC COUNTS AND VISIBILITY

According to the most recent figures from the Minnesota Department of Transportation, the 2012 annual average daily traffic (AADT) along South Robert Street at the study area was 14,600 vehicles per day (). Although these are strong traffic counts, which often support a variety of retail and service uses, they are well below the minimum threshold for many national retailers, which is typically between 18,000 and 20,000 vehicles per day.

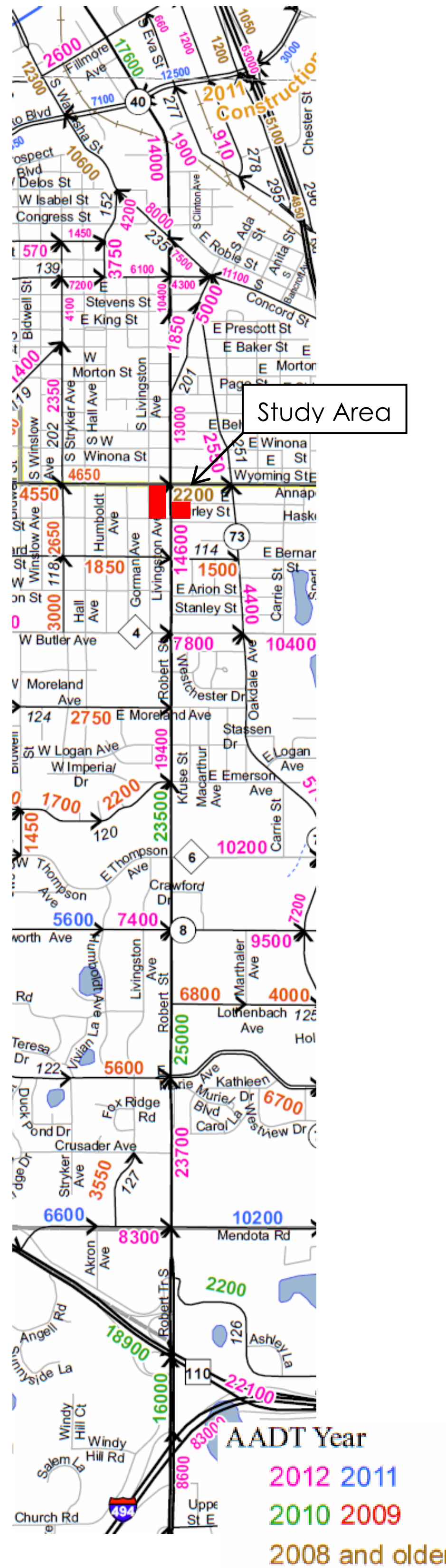
Approximately half mile to the south, however, the AADT for South Robert Street increases to 19,400 vehicles per day, and about one mile to the south it increases yet again to 23,500 vehicles per day. About a half mile north of the study area, the AADT for South Robert Street declines to 13,000 vehicles per day, and then one mile north of the study area it declines again to 10,400 vehicles per day.

Strong cross street traffic can also enhance the retail potential of a site. Annapolis Street, which forms the northern border of a portion of the study area, has an AADT of 4,550 vehicles per day west of South Robert Street and 2,200 vehicles per day east of South Robert Street. Annapolis is an important local collector road, but it does not have the traffic levels to support most types of retail uses.

The substantial decline in traffic volumes along South Robert Street, when traveling from south to north in the direction of downtown St. Paul, is largely due to two reasons. First, the amount and intensification of commercial uses located along South Robert Street decline as one travels through West St. Paul and the West Side neighborhood toward downtown. The decreased levels of commercial development are noticeable north of Butler Avenue and through the study area.

Second, changes in traffic volumes along South Robert Street are also indicative of the impact of Highway 52, an arterial highway that runs parallel to South Robert Street that is located less than one mile east of the corridor. Highway 52, like South Robert Street, provides direct access to downtown St. Paul. As a result, it has generally replaced South Robert Street as the primary arterial serving to connect downtown St. Paul with eastern Dakota County and points further south. The effect is that South Robert Street, especially through West St. Paul, no longer captures commuters from other parts of Dakota County. Although portions of South Robert Street still have impressive traffic volumes, this is almost entirely due to the fact that these areas have significant commercial development that attracts customers to

Figure 9: MN DOT Traffic Counts, Robert Street Corridor



those portions of the corridor and not because of commuters traveling through the area to other nearby destinations. Where commercial development is less intense along South Robert Street, traffic volumes are lower largely because of the lack of through traffic to or from downtown St. Paul.

2.4 ACCESS

The study area is centrally located within the metropolitan region. It is located in the City of West St. Paul at its northern boundary with the City of St. Paul, which is approximately two miles south of downtown St. Paul, one of two important central business districts of the Twin Cities Metropolitan Area, the other being downtown Minneapolis.

Vehicular Access

South Robert Street, which bisects the study area, is an important local arterial that connects downtown St. Paul to the West Side neighborhood, West St. Paul, and western Inver Grove Heights. The closest access point to the regional highway network is approximately one mile to the east at US Highway 52 via Butler Avenue. In addition, South Robert Street has direct access to Interstate 94 about three miles north of the study area and access to Interstate 494 and Minnesota Highway 110 about three miles south of the study area. Via the regional highway network, the vast majority of the metropolitan area's roughly 3 million people are within a 30 minute drive under good driving conditions.

At the local site level, study area access would be primarily via Robert Street. However, it is located in a neighborhood with a gridded street pattern. Therefore, vehicle access to the study area can also be via Haskell, Annapolis, and Hurley Streets. In addition, each site on both sides of Robert Street is also served by an alley.

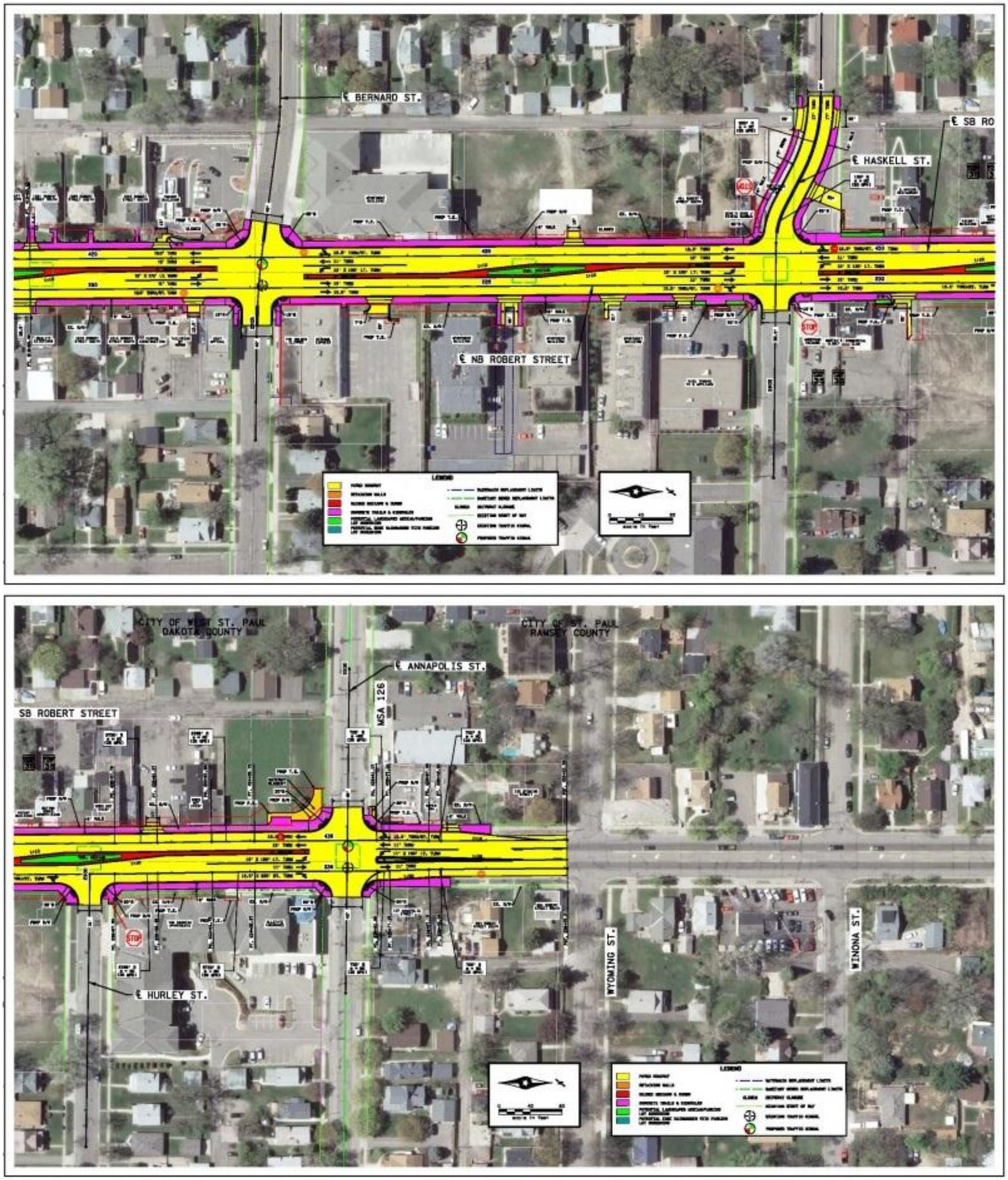
South Robert Street Reconstruction

There are plans to improve South Robert Street from the St. Paul-West St. Paul border to I-494. A first phase of this project will be through the study area. The project is scheduled to begin in 2015 and most of the planning and design work has been completed. Figure 10 illustrates the plans for the roadway along the study area.

Important changes that will occur as part of the roadway reconstruction that will affect local access to the site and transportation patterns in and through the study area include the construction of a median from Annapolis to Haskell and a complete reconstruction of the Haskell and South Robert intersection to correct for a longstanding misalignment.

The new median will limit the potential for vehicles to directly enter any portion of the study area off of Robert Street if turning left. This impacts commercial uses that are required to provide or are dependent upon on-site parking since motorists will not be able to easily access parking

Figure 10: Planned Robert Street Improvements, Bernard Street to Annapolis Street



areas from the most visible vantage points along Robert Street. Businesses most affected by this would be convenience and destination retailers. If on-site parking is provided, it will need to be accessed via Haskell, Hurley, or Annapolis streets, which would likely require clear signage and potentially some element of wayfinding.

The elimination of the offset intersection will likely benefit the development potential of the study area as it will improve safety for motorists as well as pedestrians and enhance access to each part of the study area via Haskell Street.

The reconstruction of South Robert Street will have an important long-term effect on the market for commercial activity along the Corridor. For many years, South Robert Street has been characterized as a challenging thoroughfare with an inadequate design given its traffic volumes, speeds, and adjoining land uses. For example, safety for both motorists and pedestrians has long been a concern due to the frequent curb cuts, which make it difficult for motorists to enter and exit the roadway and for pedestrians to use the sidewalk. Moreover, its lack of a consistent streetscape has lowered the quality and aesthetic of the environment. These multitudes of issues have created a somewhat negative perception of South Robert Street.

With the reconstruction, however, many of these issues will be alleviated or mitigated, which will improve the perception of the thoroughfare and potentially result in greater private investment and increased development. The reconstruction will undoubtedly have a more immediate impact on some portions of the Corridor over others. Nevertheless, the positive effect should eventually be felt pretty much throughout the Corridor over time.

Non-Vehicular Access

For those traveling to and from the study area via transit, bicycle, or walking access is excellent. Currently, Metro Transit bus route 68 travels along South Robert through the Study Area. This bus route has frequent service (up to every 10 minutes during peak travel times) and connects the study area to downtown St. Paul and the more built up commercial portions of Robert Street to the south. In downtown St. Paul, transit users can now connect to the recently opened Green Line LRT, which provides direct service to downtown Minneapolis.

Furthermore, planning is underway for additional levels of transit service for the Robert Street Corridor. Consideration is being given to the possibility of either enhanced bus service that mimics the function of LRT service and is known as bus rapid transit (BRT) or a streetcar.

Although there are no dedicated trails or bike routes directly serving the study area, as previously mentioned, the study area is located in a neighborhood of gridded streets many of which only serve local traffic and thus have traffic volumes conducive to bicycling. This system of gridded streets also means that most of the blocks in the surrounding neighborhood have sidewalks, which maximizes pedestrian accessibility. Moreover, as one travels in any direction from the study area there are few if any significant physical barriers that would prevent easy access to the study area.

2.5 NEIGHBORHOOD CONTEXT

The portion of South Robert Street where the study area is located was first developed over 100 years ago prior to when automobiles became the dominant form of transportation. Therefore, much of the existing built environment was designed for pedestrian and transit accessibility. As a result, the commercial function of South Robert Street in the vicinity of the study area has undergone a number of transformations throughout the decades as new types of commercial development and transportation patterns pushed further and further south.

Unlike areas further south along Robert Street, the area near the Study Area still contains a mixture of commercial businesses and residences that line the Corridor. Intersections, and especially those with stoplights, generally contain commercial properties on each corner. However, it is common that interior sections of each block will contain multifamily and even single family residences. There are also many examples of former residential properties having been converted to commercial space in order to take advantage of the traffic and visibility along South Robert. At one time, many of the businesses in this part of South Robert may have served a broader trade area that extended into other parts of West St. Paul or even Dakota County. However, because of the dominance of the commercial activities further south along Robert Street, the businesses that exist today generally serve a very localized or neighborhood market and mostly consist of small independent retailers and service firms. Example businesses include convenience store, insurance agency, salon, tailor, optician, and repair shop, to name a few.

The blocks extending east and west away from Robert Street and the study area mostly consist of modest one- and two-story single-family homes built before World War II. Although there are examples of homes with obvious signs of deferred maintenance, these tend to be the exception as most are generally well maintained.

There are several examples of new development near the study area. Immediately north and east of the study area is the Dakotah Apartments, an age- and income-restricted apartment for seniors that was built by the Dakota County CDA approximately 10 years ago. In a portion of the ground floor is commercial space that currently houses a non-profit community service provider. To the east of the study area is another age- and income restricted apartment building called Haskell Court that was built about 20 years ago. Just south of the study area are the Emerson Hill Apartments, a 35-unit building that was built about eight years ago. Adjacent to these apartments is a new commercial development currently under construction. The first phase will contain approximately 8,000 square feet of space. The front of the building will be built adjacent to the Robert Street sidewalk allowing for easy pedestrian access.

Other neighborhood features and amenities that would serve to attract potential residents is its proximity to downtown St. Paul and an area across the Mississippi River known as the west side flats. Downtown and the west side flats are less than two miles from the study area and contain over 40,000 jobs. Also, West St. Paul is in the process of implementing a trail network that will connect much of the City to existing regional trails that extend along the Mississippi River both to the east and west of the study area.

2.6 SITE ANALYSIS CONCLUSIONS

The study area is an excellent location for multifamily housing. Its central location within the region, access to high-frequency transit, walkability, proximity to shopping and employment further south along Robert Street, and proximity to employment in downtown St. Paul all serve to make the location very desirable for many types of households. For certain types of households with young children, however, there may be concern regarding the volume and speeds of traffic along South Robert Street as a potential safety hazard. To some degree these concerns and issues could be mitigated through design, such as providing on-site play areas or orienting larger unit styles away from the roadway. Nevertheless, safety concerns related to young children are a legitimate issue and if they cannot be adequately addressed then consideration should be given to positioning any multifamily component toward households without young children.

As a location for new commercial development, the issues surrounding the study area are more complex with numerous strengths and weaknesses. Strengths include the fact that South Robert Street is well known throughout the region as a commercial corridor with lots of retail options. This means businesses located in the study area could conceivably take advantage of this notoriety for purposes of marketing their business. Also, the retail industry is undergoing a significant transformation as the internet is forcing many brick and mortar operations to sell an experience in addition to a good or service. Places that are at a human scale, such as the study area with its pedestrian and transit accessibility, have an inherent advantage over places that aren't at a human scale when it comes to selling an experience. Finally, the reconstruction of South Robert Street represents a huge public investment into the area that will not only significantly improve the functioning of the roadway but will also reverse longstanding negative perceptions of the Corridor and may likely catalyze new private investment.

Despite these positive characteristics that would support new commercial development, there are some significant challenges as well. First, the main concentration of retail that people generally associate with South Robert is well over a mile south of the study area and the development pattern in that part of the corridor is much more conducive to attracting shoppers who travel by car, which serves to widen its trade area, whereas the study area is more conducive to shoppers traveling by foot, bicycle, or transit, which generally constricts the trade area.

Second, the study area, particularly west of Robert Street where the depth of the lot is only 140 feet, does not provide a lot of room to accommodate parking. This becomes even more critical when one considers that the changes to the Robert Street roadway will likely necessitate having to accommodate on-site surface parking in some form or another for any significant concentration of commercial uses. Compounding the challenge is that one of the strengths of the location is a human scale in which pedestrian-orientation will need to be protected at least and augmented at best. However, under such conditions, parking cannot be a dominant use and needs to be artfully incorporated into the site without detracting from the pedestrian character. To do this, though, would require a whole host of creative solutions, such as sharing parking among users, structuring the parking to minimize its footprint, and clearly marking where parking is located and how to reach it. All of which add expense that typically can only be overcome with very high rents.

Third, although the study area has a foundation for being at a human scale, it currently lacks a place of interest. Recent nearby development has contributed to creating a sense of place with multistory structures without excessive setbacks and ground floor commercial spaces. However, there still is a great deal to do and creating interesting places from scratch are difficult and very expensive. Older neighborhoods that leverage their inherent human scale often do so through the renovation or rehabilitation of older buildings with some sort of architectural charm or character, which is usually much less expensive than building from scratch. Unfortunately, the study area lacks these types of properties and, therefore, any sense of place must be achieved through new construction.

3.0 SOCIO-ECONOMIC OVERVIEW

This section examines the relationship between West Saint Paul and long-term regional and national demographic and economic trends. Long-term changes in demographic and economic trends can signal ways in which the market will likely respond to future demand for housing, retail, and services.

3.1 POPULATION AND HOUSEHOLDS

Figure 11 presents population and household growth trends for West Saint Paul from 1960 to 2010. During the 1960s, West Saint Paul grew by roughly 5,600 people. Since 1970, though, West Saint Paul's population has stabilized with modest increases and decreases in any given decade. As of 2010, the population was just over 19,500. Although the household base generally follows the same trend as population, it didn't reach stabilization until 2000 when it peaked at just over 8,600 households.

Figure 11: West St. Paul Population and Households 1960-2010

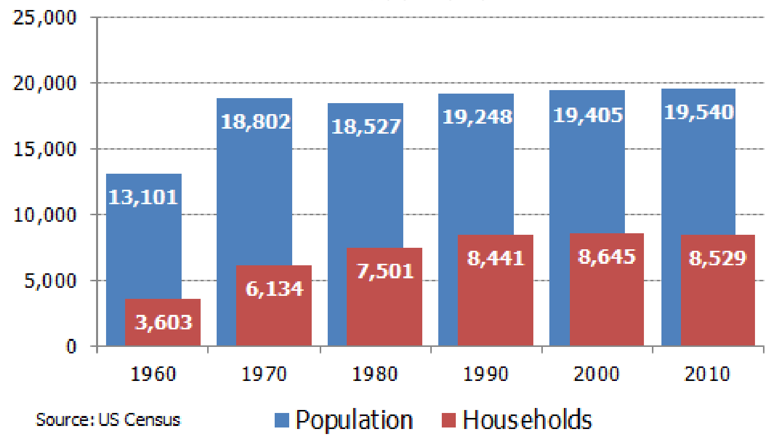
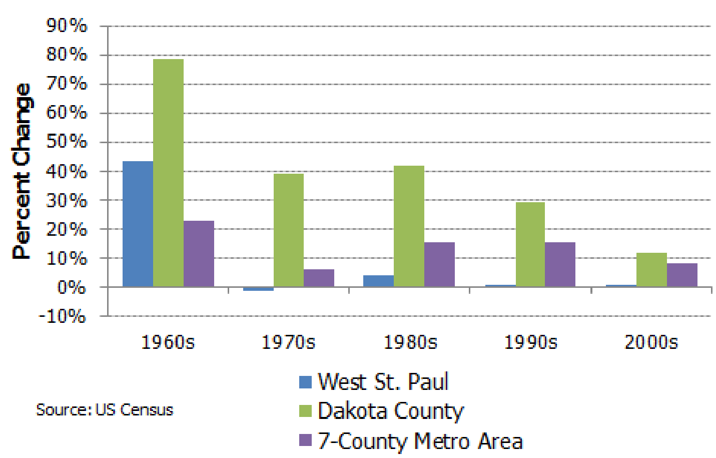


Figure 12 compares the rate of population growth since the 1960s in West Saint Paul to Dakota County and the Metro Area. The 1960s was West Saint Paul's last decade of strong population growth in which the rate of growth exceeded that of the Metro Area. Since that time, growth rates have generally lagged well behind that of the Metro Area and in particular Dakota County. This is due in part to the fact that West Saint Paul does not have a lot of available land for new development. Therefore, any future growth in West Saint Paul will have to be the result of redevelopment or intensification of existing land uses.

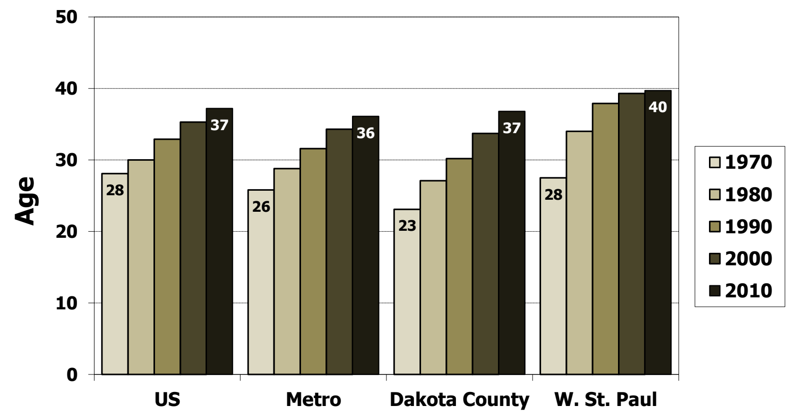
Figure 12: Population Growth Rates 1960-2010



3.2 AGE

Since 1970, the median age of the population has increased significantly at the local, regional, and national levels (Figure 13). Within West Saint Paul, however, the rate of aging has begun to slow appreciably whereas Dakota County continues to age at a much faster rate. The age profile of the population has important ramifications on the market for housing and retail. Younger persons have significantly different demands than older persons when it comes to housing types and shopping habits.

Figure 13: Median Age 1970-2010



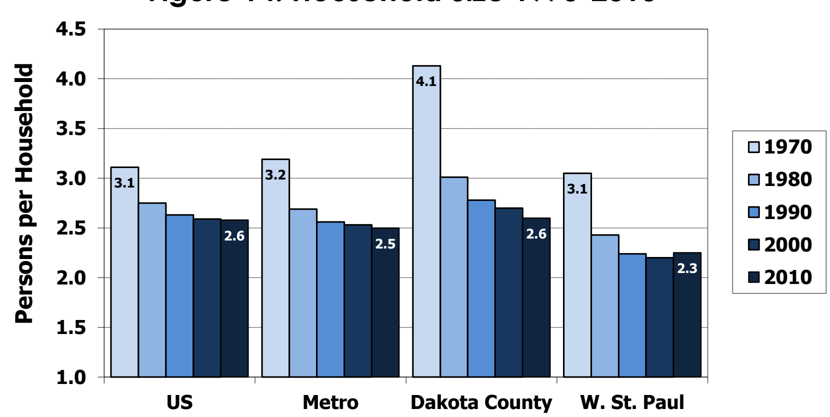
Source: U.S. Census

3.3 HOUSEHOLD SIZE

Household size declined sharply between 1970 and 1980 as the youngest baby boomers moved out of their parent's homes and started new households (Figure 14). Since 1980, household size has continued to drop, though not at as sharp as during the 1970s. Within West Saint Paul, however, longstanding trends have begun to reverse themselves and average household size actually increased slightly between 2000 and 2010, which is likely a sign of household turnover as older households transition to younger families, many with children.

Changes in household size can impact housing and retail markets in a variety of ways. For example, fewer individuals in a household decrease the need for overall space and furnishings, both inside and outside the unit. Conversely, increasing household size results in pressure on the space needs of the unit. Without the ability to expand through additions, many households may need to relocate to meet their housing needs even if they would prefer to stay in the community they are located in.

Figure 14: Household Size 1970-2010

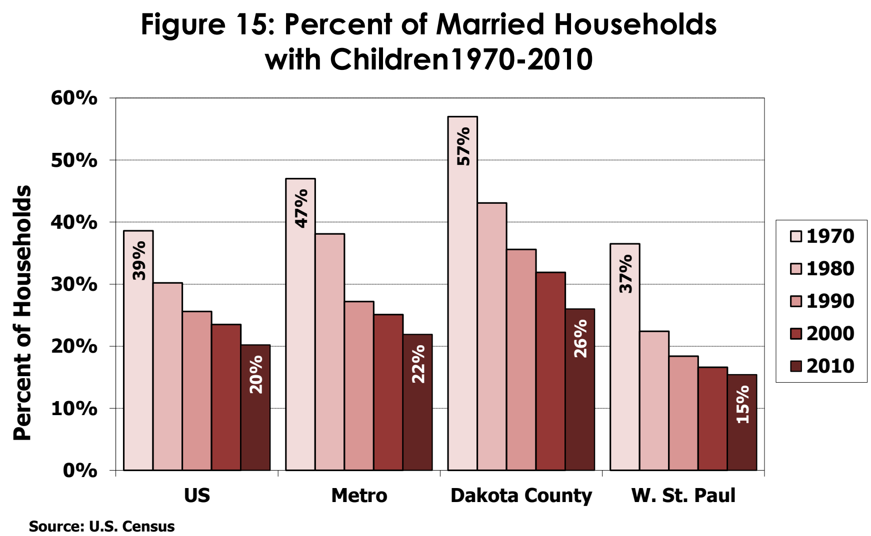


Source: U.S. Census

3.4 HOUSEHOLD TYPE

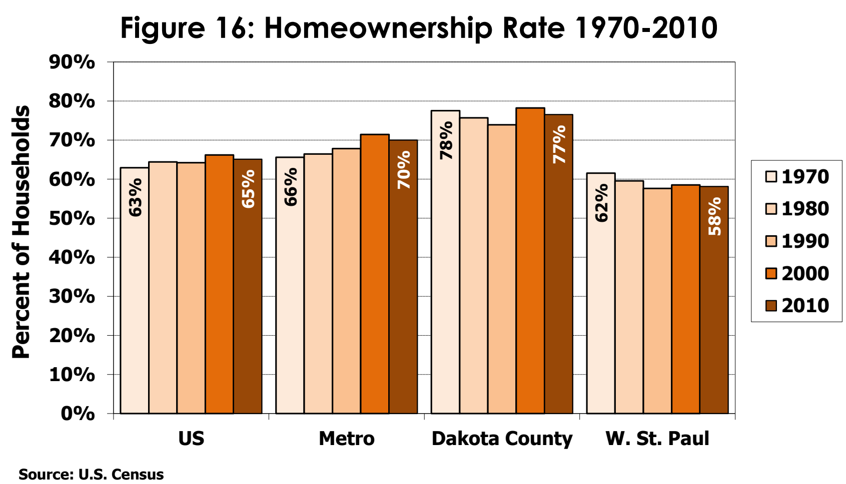
Household types have dramatically changed since 1970. In the last 40 years, as the population has aged, the percentage of households defined as married couples with children has significantly decreased (Figure 15) while the percentage of single-parent families and single-person households has increased. This drop has been especially acute in West Saint Paul where only 15% of all households are now married couples with children.

Changing household types influence housing by affecting the styles and layouts of units. For example, families with children prefer housing with private yards, if affordable, along with bedrooms on separate levels from the main living areas. In contrast, households without children often prefer one-level living in which bedrooms are on the same level as the living area.



3.5 HOMEOWNERSHIP

Homeownership in West Saint Paul has historically been below the national rate; meanwhile in Dakota County it has been above the national rate. Although the rate of homeownership has generally been increasing only until the past decade, it has been on a slow decline in West Saint Paul for several decades. Traditionally, high rates of homeownership are indicative of a more stable population that remains in the community for long periods of time. However, structural change in the for-sale housing market due to the recent housing bust is making homeownership less attractive. This may result in more long-term or "lifestyle" renters who choose to not own their housing, though they may have the means to do so.

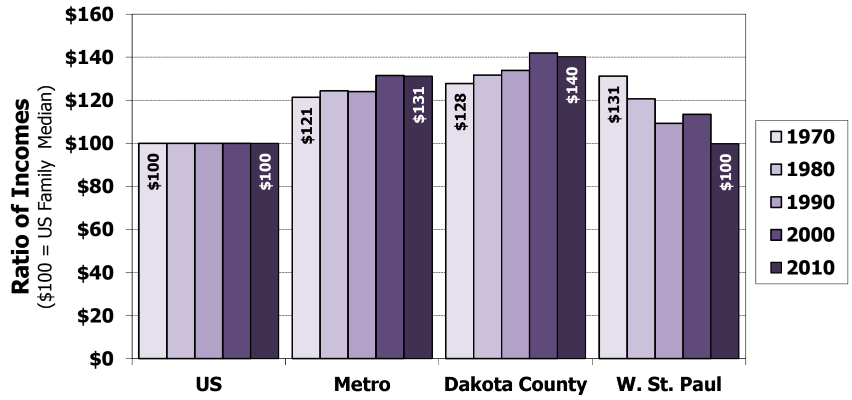


3.6 INCOME

In 1970 West St. Paul's median family income was well above the national and metro area median. Over the next two decades, however, the City's median family income significantly declined relative to the national, metro, and Dakota County medians. As of 2010, West St. Paul's median family income was equal to the national median but well below that of the metro area and Dakota County.

Figure 17: Median Family Income 1970-2010

($100 = US Family Median Income)



Source: U.S. Census

Income is important because it directly relates to the spending power of area residents and their ability to support affordable new forms of housing.

3.7 EMPLOYMENT BY INDUSTRY

Table 3 and Figure 18 compare the distribution of employment by industry sector for the metro area, Dakota County, and West St. Paul as of 1st quarter 2014.

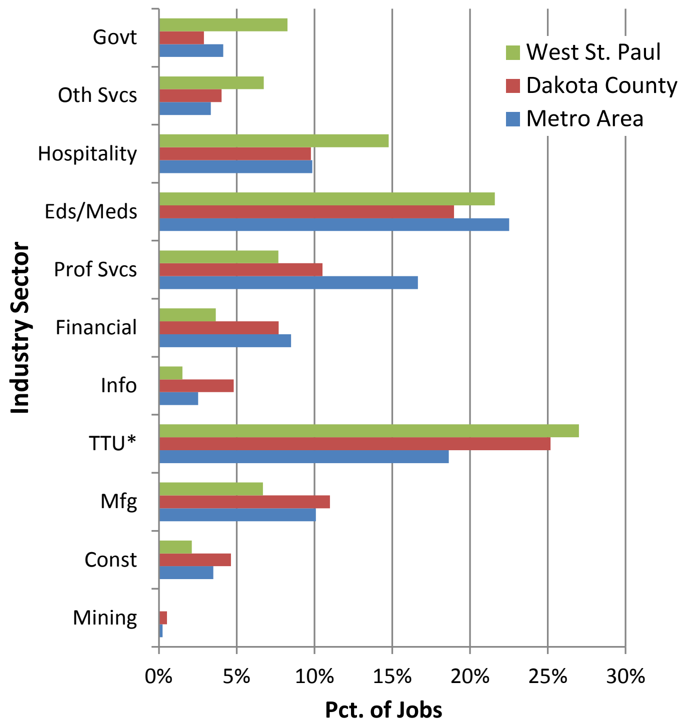
Table 3: Distribution of Jobs by Industry Sector, 1st Quarter 2014

	Employment			Distribution		
Industry Sector	**Twin Cities Metro Area**	**Dakota County**	**West St. Paul**	**Twin Cities Metro Area**	**Dakota County**	**West St. Paul**
Natural Resources & Mining	3,795	922	-	0.2%	0.5%	0.0%
Construction	56,429	8,181	165	3.5%	4.6%	2.1%
Manufacturing	162,571	19,430	524	10.1%	11.0%	6.7%
Trade, Transportation, & Utilities	299,889	44,451	2,114	18.6%	25.2%	27.0%
Information	40,667	8,487	118	2.5%	4.8%	1.5%
Financial Activities	136,886	13,588	286	8.5%	7.7%	3.7%
Professional & Business Services	268,139	18,560	602	16.7%	10.5%	7.7%
Health & Education Services	362,435	33,496	1,691	22.5%	19.0%	21.6%
Leisure & Hospitality	158,772	17,268	1,157	9.9%	9.8%	14.8%
Other Services	53,833	7,110	528	3.3%	4.0%	6.7%
Public Administration	66,643	5,110	647	4.1%	2.9%	8.3%
Total, All Industries	1,610,059	176,603	7,832	100.0%	100.0%	100.0%

Source: Minnesota Department of Employment and Economic Development

West St. Paul's largest industry is Trade, Transportation, and Utilities with just over 2,100 employees, the majority of which are retail jobs due to the heavy concentration of retail in the City. Its next largest sectors are Health and Education with nearly 1,700 employees and Hospitality with about 1,200 employees. Trade and Hospitality are traditionally two of the lowest paid industry sectors. Therefore, employees who work in West St. Paul and also want to live in West St. Paul will be looking for more affordable housing as their wages often cannot cover market rate rents or qualify for homeownership.

Figure 18: Distribution of Jobs by Industry 1st Quarter 2014



* TTU is defined as Trade, Transportation, and Utilities
Source: Minnesota Department of Employment and Economic Development

3.8 SOCIO-ECONOMIC CONCLUSIONS

West Saint Paul's population and household base has declined slightly in recent years. This is largely the result of decreasing household sizes due to an aging of the overall population. This phenomenon is not unique to West Saint Paul. Most communities that have run out of vacant land for development will ultimately experience this cycle where residents age in place, preventing housing turnover and resulting in population decline. The effects of this dynamic are changing market demographics for area retailers and a housing stock that is at risk of deferred maintenance because new, often younger, families are not moving into the area and reinvesting in area homes.

At the same time, the metropolitan region, including Dakota County, continues to grow and expand. Therefore, it will be important for West Saint Paul to identify places for redevelopment with which to capture a portion of the region's growth.

4.0 MULTIFAMILY HOUSING MARKET

4.1 TRADE AREA DEFINITION

The Housing Market Area for the study area includes the Dakota County cities of West St. Paul, South St. Paul, Inver Grove Heights, Mendota Heights, Sunfish Lake, Lilydale, and Mendota. Because the study area borders the City of St. Paul, the market area also includes the West Side and West 7th neighborhoods as well as the downtown. Persons living or working in the Market Area will generate the majority of demand for multifamily housing located at the study area. However, significant demand will also come from outside of the Market Area given the study area's central location within the region and proximity to downtown St. Paul.

The Market Area was defined based on community orientation, transportation patters, existing competitive properties, physical, geographic, administrative boundaries, and the consultant's knowledge of the market areas for multifamily housing.

4.2 MARKET AREA DEMOGRAPHICS

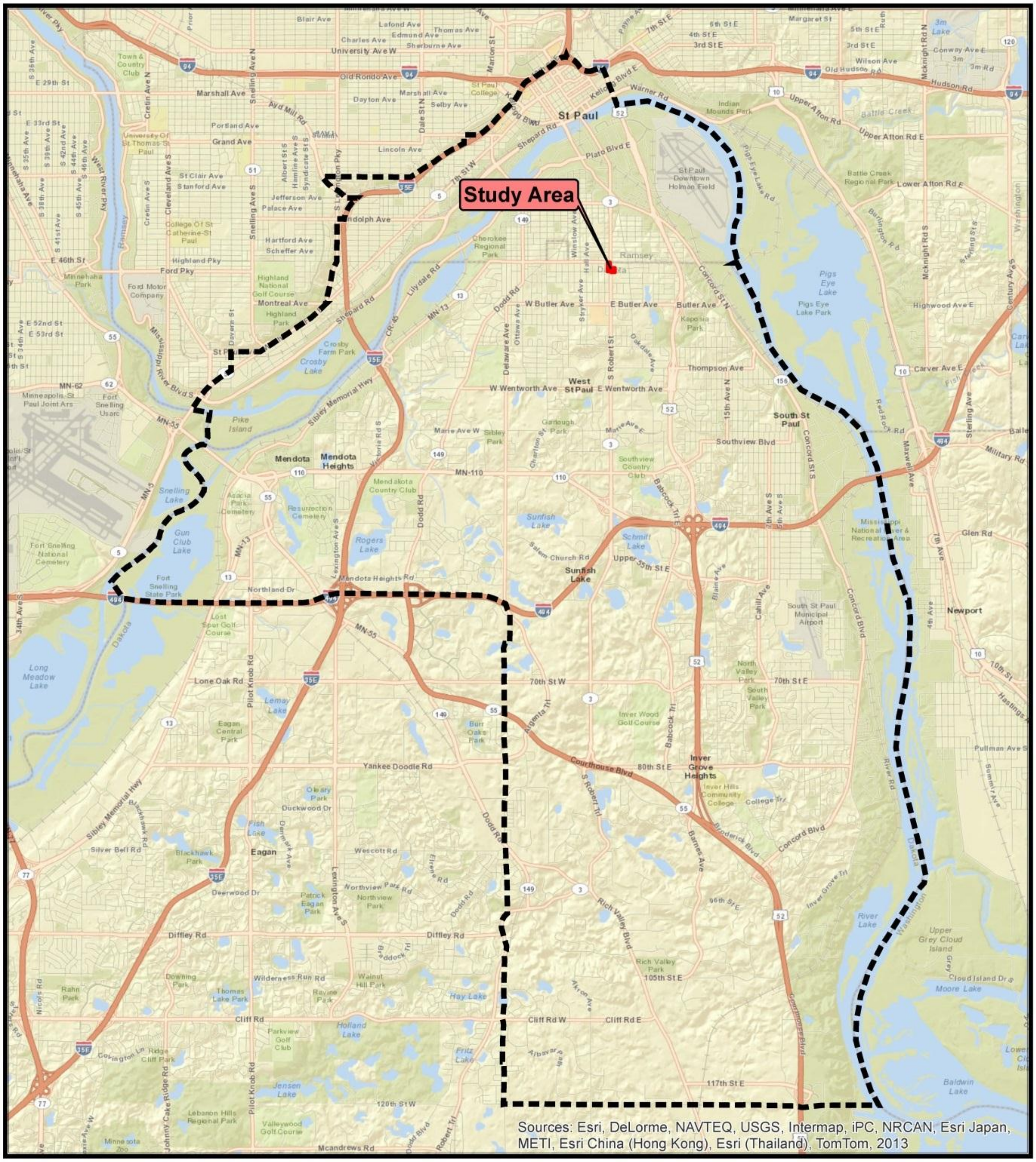
Population and Households

Table 4 displays population and household growth trends for the Housing Market Area for the years 2000 through 2020. The Housing Market Area encompasses a broad area that includes everything from long established neighborhoods in northern Dakota County and St. Paul as well as more recently developed neighborhoods of Inver Grove Heights in the southern most portions of the Market Area. Although there is a variety of neighborhood ages and types within the Market Area, the vast majority of it has been built-up for many decades. Therefore, future growth within the Market Area will be largely dependent on redevelopment.

Table 4: Housing Market Area Population and Household Growth Trends

	Census		Estimate	Forecast	Change '00-'10		Change '10-'20	
Geography	2000	2010	2014	2020	No.	Pct.	No.	Pct.
Population								
Housing Market Area	118,888	124,357	130,454	139,600	5,469	4.6%	15,243	12.3%
West St. Paul	*19,405*	*19,540*	*20,117*	*21,200*	*135*	*0.7%*	*1,660*	*8.5%*
Dakota County	*355,904*	*398,552*	*413,795*	*441,700*	*42,648*	*12.0%*	*43,148*	*10.8%*
7-County Metro Area	*2,642,056*	*2,849,567*	*2,962,826*	*3,124,300*	*207,511*	*7.9%*	*274,733*	*9.6%*
Households								
Housing Market Area	49,097	53,076	56,126	60,700	3,979	8.1%	7,624	14.4%
West St. Paul	*8,645*	*8,529*	*8,771*	*9,200*	*-116*	*-1.3%*	*671*	*7.9%*
Dakota County	*131,151*	*152,060*	*158,456*	*171,000*	*20,909*	*15.9%*	*18,940*	*12.5%*
7-County Metro Area	*1,021,454*	*1,117,749*	*1,158,953*	*1,230,000*	*96,295*	*9.4%*	*112,251*	*10.0%*

Sources: US Census; Metropolitan Council; Stantec



Housing Market Area

West St. Paul Gateway Market Study

Housing Market Area Boundary

Study Area

June 20, 2014

Stantec

N

0 1.5 3 Miles

V:\1938\active\193802725\GIS\Projects\Housing Market Area.mxd

During the 2000s the Market Area grew by roughly 5,500 persons or 4.6%. Because of the built up nature of the Market Area, this rate of growth was about half of the metro area rate and about one-third of the Dakota County rate. Nonetheless, redevelopment and/or household turnover was still strong enough within various portions of the Market Area that its rate of growth was well ahead of the City of West St. Paul, which only grew at a rate just under 1.0%.

Based on 2040 forecasts published by the Metropolitan Council, the rate of growth in the Market Area is anticipated to increase significantly during the current decade to 12.3%, which will result in roughly 15,200 new persons. This forecast takes into consideration the growing interest of urban living among Baby Boomers who are now reaching early retirement years and want to downsize and simplify their living arrangements as well as Millenials who appear to be opting for more urban locations compared to previous generations. As a result, there is a renewed emphasis among developers and policy makers alike toward redevelopment of underutilized land closer in to the urban core with access to high-frequency transit and walkable, amenity-rich neighborhoods.

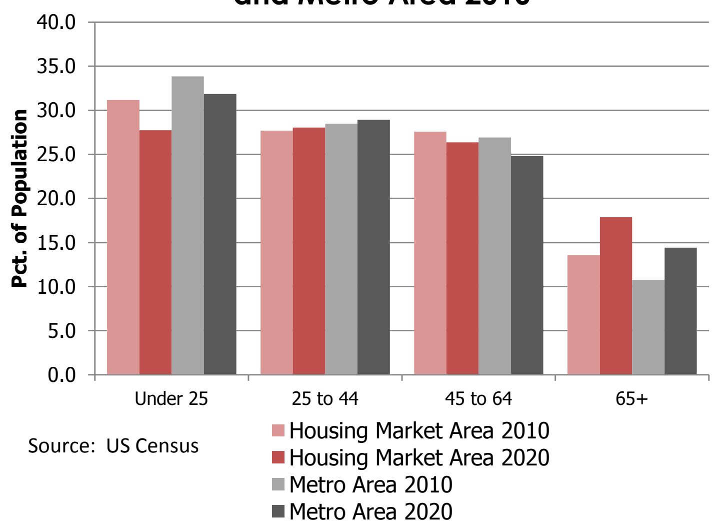
Household growth is a better predictor of housing demand than population growth because a household, by definition, is an occupied housing unit. Between 2000 and 2010, the Market Area grew by nearly 4,000 households for a growth rate of 8.1%. Based on 2040 forecasts published by the Metropolitan Council, it is expected the Market Area will add over 7,600 households between 2010 and 2020, a rate of 14.4%, which would exceed the forecasted growth rate of the metro area and Dakota County.

Age Distribution

Table 5 displays data on the age distribution of the Market Area and metro area populations for 2000, 2010, as well as a projection for 2020. Figure 20 illustrates graphically how the Market Area and metro area compare in 2010 and 2020.

Circled in red on the table are key population groups that grew substantially during the past decade and are projected to increase the most by the end of this decade. Not surprisingly, the baby boom generation, those born between 1946 and 1964, swelled the size of the 55 to 64 age group last decade and will swell the size of the 65 to 74 age group this decade.

Figure 20: Age Distribution of Housing Market Area and Metro Area 2010



Source: US Census

Table 5: Age Distribution of the Housing Market Area and Metro Area, 2000-2020

				Change			
			Forecast	2000-2010		2010-2020	
Age Group	2000	2010	2020	No.	Pct.	No.	Pct.
Housing Market Area							
Under 5	7,862	8,101	7,130	239	3.0	-971	-12.0
5 to 17	21,199	19,635	20,415	-1,564	-7.4	780	4.0
18 to 24	10,963	11,039	11,185	76	0.7	147	1.3
25 to 34	17,647	18,684	20,608	1,037	5.9	1,924	10.3
35 to 44	20,040	15,731	18,526	-4,309	-21.5	2,795	17.8
45 to 54	16,021	19,051	16,666	3,030	18.9	-2,385	-12.5
55 to 64	9,563	15,249	20,137	5,686	59.5	4,888	32.1
65 to 74	7,503	8,044	14,295	541	7.2	6,251	77.7
75+	8,090	8,823	10,639	733	9.1	1,816	20.6
Total	118,888	124,357	139,600	5,469	4.6	15,243	12.3
Percentage of Population							
Under 5	*6.6*	*6.5*	*5.1*	---	*-0.1*	---	*-1.4*
5 to 17	*17.8*	*15.8*	*14.6*	---	*-2.0*	---	*-1.2*
18 to 24	*9.2*	*8.9*	*8.0*	---	*-0.3*	---	*-0.9*
25 to 34	*14.8*	*15.0*	*14.8*	---	*0.2*	---	*-0.3*
35 to 44	*16.9*	*12.6*	*13.3*	---	*-4.2*	---	*0.6*
45 to 54	*13.5*	*15.3*	*11.9*	---	*1.8*	---	*-3.4*
55 to 64	*8.0*	*12.3*	*14.4*	---	*4.2*	---	*2.2*
65 to 74	*6.3*	*6.5*	*10.2*	---	*0.2*	---	*3.8*
75+	*6.8*	*7.1*	*7.6*	---	*0.3*	---	*0.5*
Total	*100.0*	*100.0*	*100.0*	---	*0.0*	---	*0.0*
Twin Cities Metro Area							
Under 5	188,236	194,329	188,329	6,093	3.2	-6,000	-3.1
5 to 17	506,396	502,642	513,866	-3,753	-0.7	11,224	2.2
18 to 24	247,128	267,451	293,345	20,322	8.2	25,895	9.7
25 to 34	411,155	420,311	486,520	9,156	2.2	66,209	15.8
35 to 44	469,324	391,324	416,696	-78,000	-16.6	25,372	6.5
45 to 54	363,592	440,753	375,040	77,161	21.2	-65,713	-14.9
55 to 64	200,980	326,007	400,071	125,027	62.2	74,064	22.7
65 to 74	130,615	163,425	268,693	32,810	25.1	105,268	64.4
75+	124,630	143,325	181,738	18,695	15.0	38,413	26.8
Total	2,642,056	2,849,567	3,124,300	207,511	7.9	274,733	9.6
Percentage of Population							
Under 5	*7.1*	*6.8*	*6.0*	---	*-0.3*	---	*-0.8*
5 to 17	*19.2*	*17.6*	*16.4*	---	*-1.5*	---	*-1.2*
18 to 24	*9.4*	*9.4*	*9.4*	---	*0.0*	---	*0.0*
25 to 34	*15.6*	*14.7*	*15.6*	---	*-0.8*	---	*0.8*
35 to 44	*17.8*	*13.7*	*13.3*	---	*-4.0*	---	*-0.4*
45 to 54	*13.8*	*15.5*	*12.0*	---	*1.7*	---	*-3.5*
55 to 64	*7.6*	*11.4*	*12.8*	---	*3.8*	---	*1.4*
65 to 74	*4.9*	*5.7*	*8.6*	---	*0.8*	---	*2.9*
75+	*4.7*	*5.0*	*5.8*	---	*0.3*	---	*0.8*
Total	*100.0*	*100.0*	*100.0*	---	*0.0*	---	*0.0*

Sources: US Census; Stantec

Tenure by Age of Householder

Table 6 presents data on household tenure (i.e., renters versus homeowners) in the Market Area and the metro area. In general, homeownership is very low among the youngest households and then increases substantially until it peaks among those in the 54-64 age range. After this peak, the trend reverses and homeownership rates tend to decrease with each successive age group.

In the Market Area, overall homeownership was at 61% in 2010. This is well below the metro area rate and is attributable to the range of housing options in the Market Area including numerous rental options. Among older age groups, homeownership in the Market Area tends to be lower compared to the metro area as well.

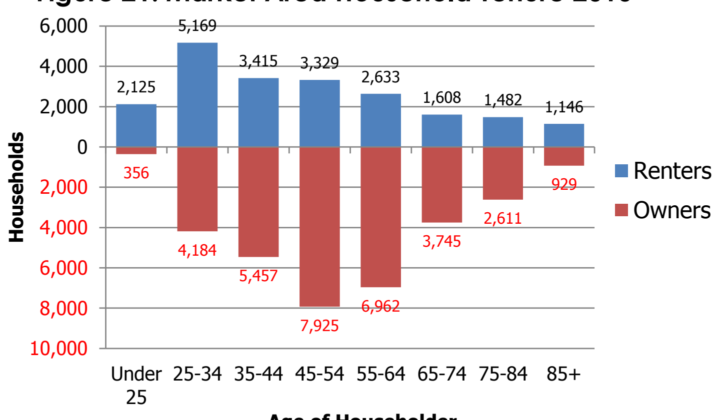
Table 6: Household Tenure by Age Group 2000 & 2010

	2000			2010			Change 2000-2010		
	Rent	Own	% Own	Rent	Own	% Own	Rent	Own	% Own
Housing Market Area									
Under 25	2,229	443	16.6%	2,125	356	14.3%	-104	-87	-2.2%
25-34	4,741	4,242	47.2%	5,169	4,184	44.7%	428	-58	-2.5%
35-44	3,593	7,773	68.4%	3,415	5,457	61.5%	-178	-2,316	-6.9%
45-54	2,422	7,290	75.1%	3,329	7,925	70.4%	907	635	-4.6%
55-64	1,533	4,339	73.9%	2,633	6,962	72.6%	1,100	2,623	-1.3%
65-74	1,324	3,564	72.9%	1,608	3,745	70.0%	284	181	-3.0%
75-84	1,538	2,529	62.2%	1,482	2,611	63.8%	-56	82	1.6%
85+	841	696	45.3%	1,146	929	44.8%	305	233	-0.5%
Total	18,221	30,876	62.9%	20,907	32,169	60.6%	2,686	1,293	-2.3%
Metro Area									
Under 25	46,699	9,790	17.3%	41,789	7,947	16.0%	-4,910	-1,843	-1.4%
25-34	91,342	114,071	55.5%	99,716	102,236	50.6%	8,374	-11,835	-4.9%
35-44	58,438	203,729	77.7%	59,303	154,678	72.3%	865	-49,051	-5.4%
45-54	36,077	177,090	83.1%	51,379	202,404	79.8%	15,302	25,314	-3.3%
55-64	18,205	102,583	84.9%	34,355	162,595	82.6%	16,150	60,012	-2.4%
65-74	14,491	68,030	82.4%	17,998	85,347	82.6%	3,507	17,317	0.1%
75-84	17,109	43,576	71.8%	16,185	50,083	75.6%	-924	6,507	3.8%
85+	10,127	10,097	49.9%	14,549	17,185	54.2%	4,422	7,088	4.2%
Total	292,488	728,966	71.4%	335,274	782,475	70.0%	42,786	53,509	-1.4%

Source: US Census

It is important to note the trend in homeownership between 2000 and 2010. In nearly every age group in both the Market Area and the metro area, the homeownership rate fell during the previous decade. This is likely due to the housing bust and subsequent foreclosure crisis, which either pushed households out of homeownership or caused others to delay entry into homeownership.

Figure 21: Market Area Household Tenure 2010



Source: 2010 US Census

Household Type

Table 7 displays the number and percentage of household types in the Market Area and the metro area for 2000 and 2010. The Market Area has a very high percentage of single-person households (35%) relative to the metro area and a commensurately low proportion of married couple households with children (16%). This is likely due to the high proportion of older adults, many of whom no longer have children living at home and/or are single because of death of a spouse.

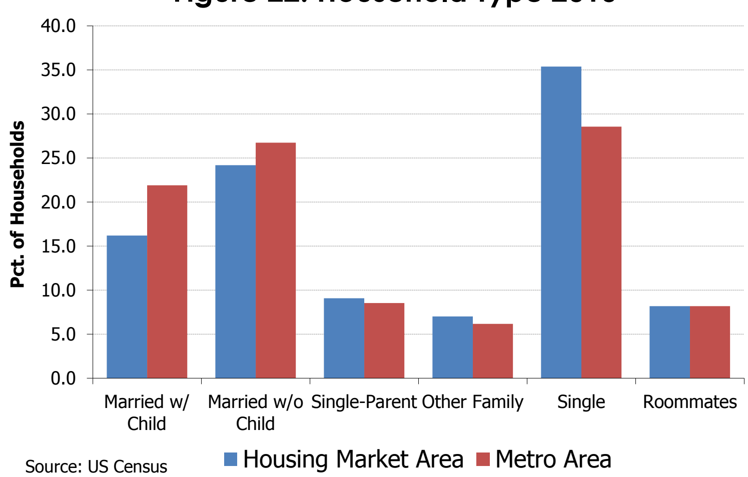
Table 7: Household Type 2000 & 2010

			------ Change ------		------- Distribution -------		
Household Type	2000	2010	Number	Percent	2000	2010	Change
Housing Market Area							
Married with children	9,876	8,590	-1,286	-13.0	20.1	16.2	-3.9
Married without children	11,834	12,835	1,001	8.5	24.1	24.2	0.1
Single-parent family	4,366	4,813	447	10.2	8.9	9.1	0.2
Other family*	2,856	3,721	865	30.3	5.8	7.0	1.2
Single	16,505	18,782	2,277	13.8	33.6	35.4	1.8
Roommate	3,660	4,335	675	18.4	7.5	8.2	0.7
Total Households	49,097	53,076	3,979	8.1	100.0	100.0	0.0
Metro Area							
Married with children	256,655	244,687	-11,968	-4.7	25.1	21.9	-3.2
Married without children	263,626	298,723	35,097	13.3	25.8	26.7	0.9
Single-parent family	84,246	95,127	10,881	12.9	8.2	8.5	0.3
Other family*	53,632	68,959	15,327	28.6	5.3	6.2	0.9
Single	281,086	319,030	37,944	13.5	27.5	28.5	1.0
Roommate	82,209	91,223	9,014	11.0	8.0	8.2	0.1
Total Households	1,021,454	1,117,749	96,295	9.4	100.0	100.0	0.0

* Other Family households can consist of households with adult siblings, parents with adult children, or householders with parents

Source: US Census

Figure 22: Household Type 2010



Source: US Census

Household Income by Age of Householder

Table 8 displays data on median household incomes by age group for the Market Area and the metro area for 2000 and 2012 (the most recent Census year with income data available). Overall, the Market Area has a median household income about 20% lower than the metro area median. This is likely due to the higher percentage of single-person households in the Market Area as well as concentrations of lower income families and elderly. Although each age group in the Market Area has lower median incomes than the metro area, the median for the 25 and older age group is only slightly below that of the metro area equivalent whereas all other age groups are well below the metro area.

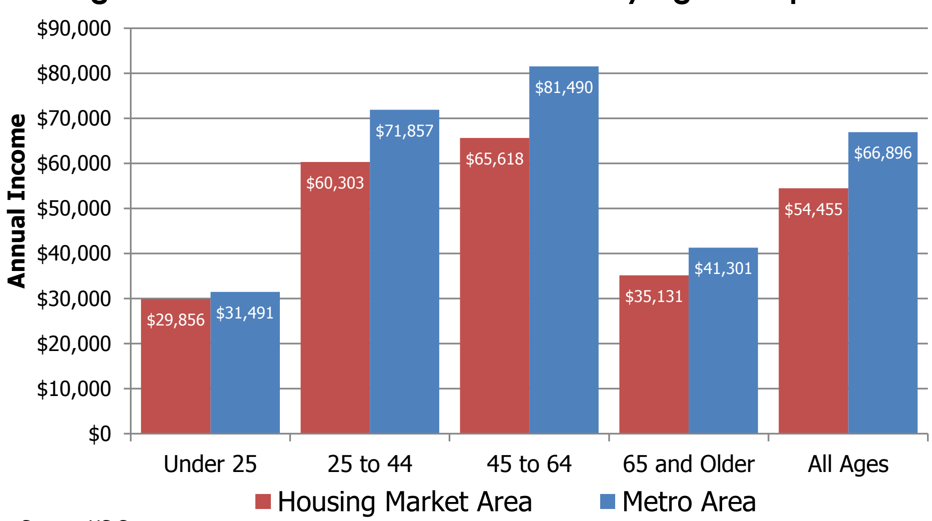
The rate of income change since 2000 among Market Area households has been below that of the metro area, indicating that Market Area households are generally not keeping up with the metro rate of change.

Table 8: Median Household Income by Age Group 2000 & 2012

	Housing Market Area			Metro Area		
Age Group	2000	2012	Change	2000	2012	Change
Households under 25	$29,992	$29,856	-0.5%	$29,181	$31,491	7.9%
Households 25-44	$50,350	$60,303	19.8%	$58,616	$71,857	22.6%
Households 45-64	$59,389	$65,618	10.5%	$67,861	$81,490	20.1%
Households 65+	$27,863	$35,131	26.1%	$31,233	$41,301	32.2%
All Households	$46,167	$54,455	18.0%	$54,807	$66,896	22.1%

Source: US Census: 2000 Census; 2008-2012 American Community Survey

Figure 23: Median Household Income by Age Group 2012

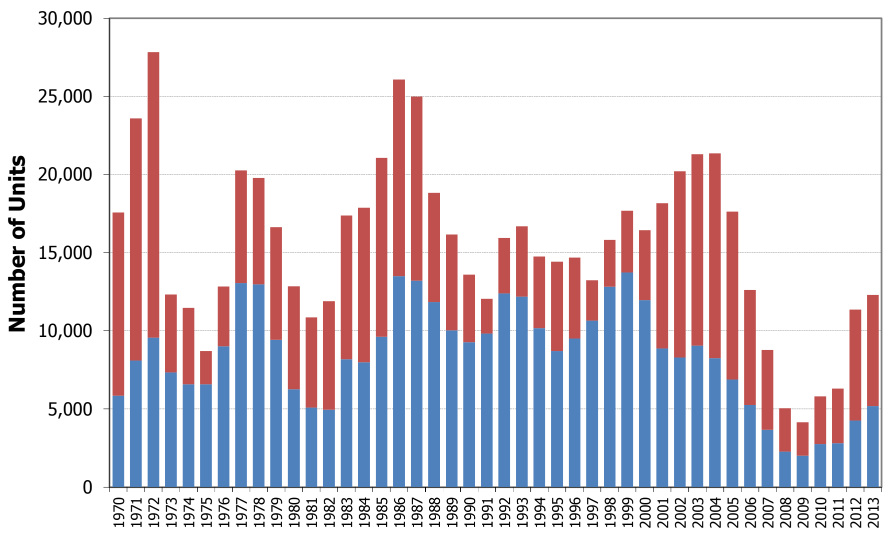


Source: US Census

4.3 RESIDENTIAL CONSTRUCTION TRENDS

The Twin Cities metro area has experienced a number of housing booms and busts over the last 40 years (Figure 24). However, none of the previous busts have been as severe as the current one. In 2009, fewer than 5,000 new units were permitted for construction in the metro area. This compares to recent peaks of 20,000 and 21,500 in 2003 and 2004, respectively. Although the current slowdown in residential development is pressing, other recent trends bear mentioning as well, most notably being the shift to develop more attached forms of housing, such as twinhomes, townhomes, and apartments.

Figure 24: Metro Area Housing Units Permitted for Construction 1970-2013

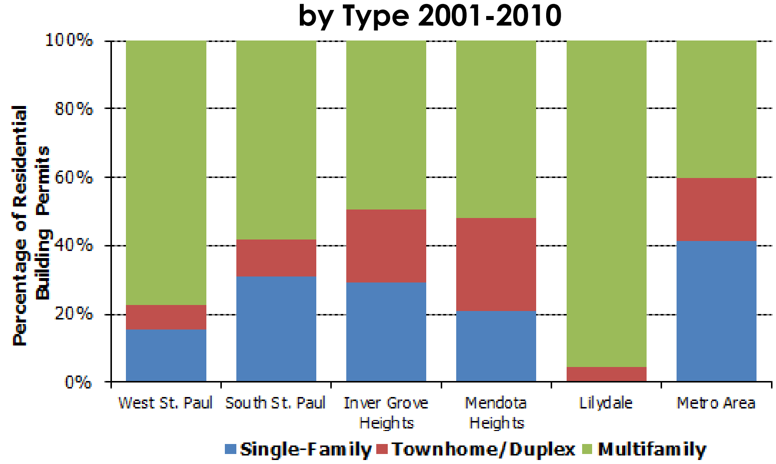


Source: Metropolitan Council

Throughout most of the 1990s, single-family homes dominated residential development. This was generally the result of low transportation costs, lack of land zoned for multifamily housing, property tax rates that penalized development of rental apartments, and modest rates of price appreciation, which maintained affordability. However, as home prices rose quickly in the early 2000s, an increasing number of households reached retirement age, and gasoline prices spiked upward, attached forms of housing located centrally to jobs, retail, and healthcare became more prevalent.

In the Housing Market Area, nearly 50 percent of the homes built between 2001 and 2010 were attached in some form or another (Figure 25). This is indicative of the built-up nature of the Market Area in which redevelopment projects, due to their higher costs associated with land pricing, environment assessment, complex entitlements, and specialized design, often require higher densities of housing in order to be financially feasible.

Figure 25: Market Area Housing Construction by Type 2001-2010



Source: Metropolitan Council

4.4 FOR-SALE MARKET

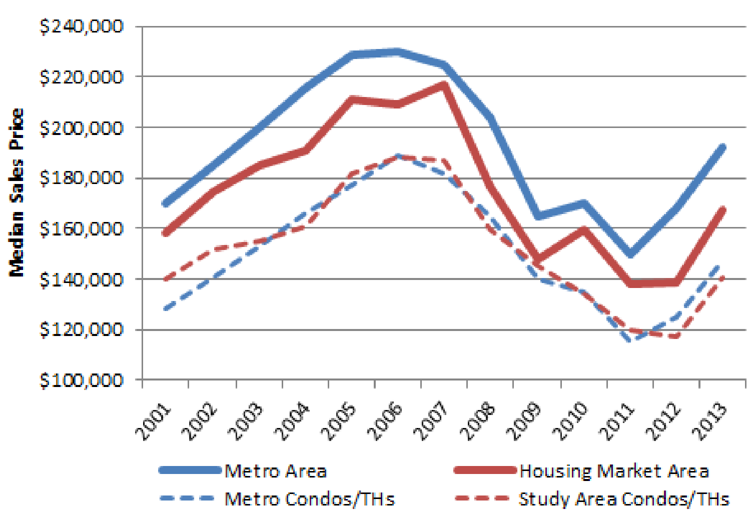
This section presents information on the condition of the current for-sale housing market. It includes an overview of the for-sale market during the last 10 years, a review of recent for-sale multifamily developments in the Market Area, and a discussion of the potential for for-sale multifamily housing (i.e., condominiums and townhomes) to be supported in the study area.

Sales Trends

From the late 1990s until the mid-2000s, the for-sale housing market experienced unprecedented growth fueled by historically low mortgage interest rates, new mortgage products that reduced down payments, and favorable demographics. Although the bulk of new housing that was constructed during this period consisted of traditional detached single-family product in suburban and exurban markets, the multifamily ownership market, including condominiums and townhomes, experienced dramatic growth as well. Focused primarily on the downtowns of Minneapolis and Saint Paul, as well as emerging suburban town centers, the condominium market at its peak between 2004 and 2006 was producing well over 3,000 units per year. A rate never experienced in the Twin Cities prior to this point.

By 2007 and especially 2008, it became evident that overheated demand had resulted in a housing bubble that once it crashed caused declines in housing values not seen since the Great Depression 80 years earlier. Prices in many markets, including portions of the Twin Cities, saw declines as sharp as 50% or more. In the Market Area, median home sales prices peaked at $217,000 in 2007 before falling to $138,000 by 2011, a 36% decline (Figure 26). However, since 2011 the median sales price in the Market Area has rebounded nearly $30,000 and is now less than 25% below its market peak.

Figure 26: Median Homes Sales Price 2001-2013



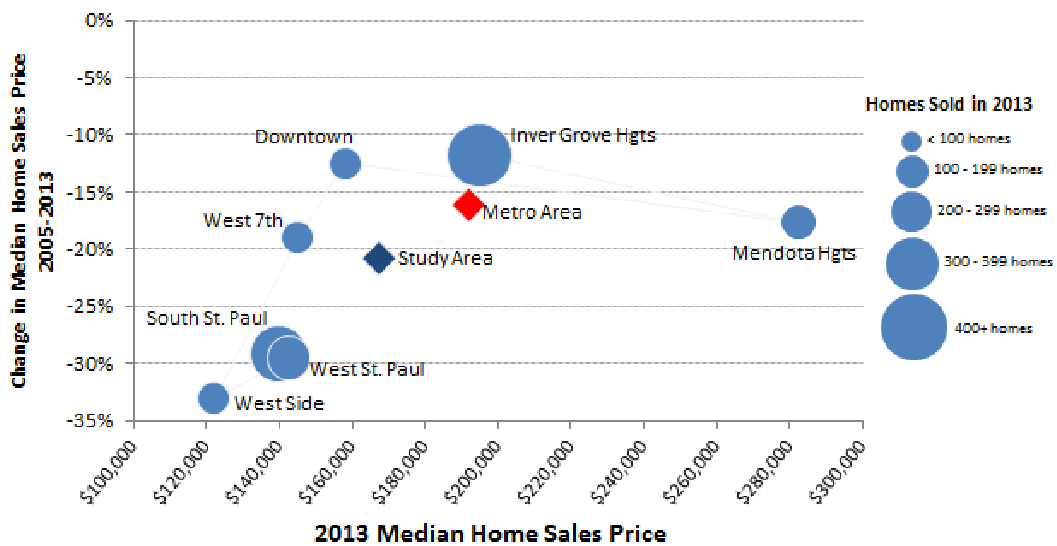
Sources: NorthstarMLS; Stantec

Pricing trends in the Market Area have generally mirrored those of the Metro Area. However, regardless of price fluctuations in recent years, the median price in the Market Area has tended to be 8-12% below that of the Metro Area.

In terms of for-sale multifamily housing (condos and townhomes), pricing is generally lower than the overall housing market as the units are smaller and there is often little or no private yard. However, in contrast to the overall housing market, condos and townhomes within the Market Area tend to be priced similarly to the metro area median. However, this market niche has been slower to recover from the bust as only within the last year have median sales prices begun to climb above the market floor.

Figure 27 provides additional detail of the for-sale housing market for each of the cities and major neighborhoods comprising the Market Area. Although every community within the Market Area experienced a significant drop in home values during the recession, not all areas were affected equally.

Figure 27: Housing Price Trends by Market Area Submarket 2005-2013



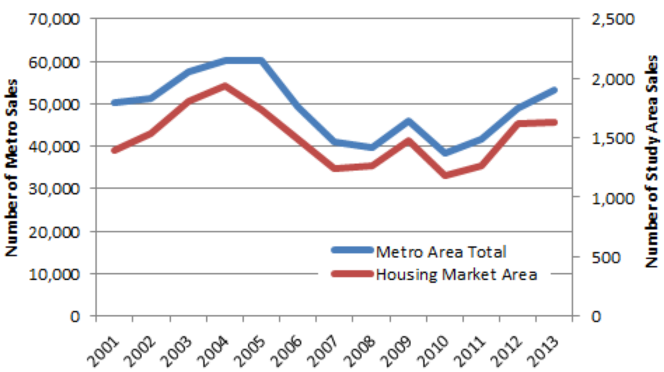
Source: Stantec; NorthstarMLS

West St. Paul, South St. Paul, and the West Side experienced the sharpest declines within the Market Area and have yet to rebound in the same fashion as other Market Area communities. Meanwhile, these are the same communities that have the lowest median sales prices as well.

Figure 28 and Figure 29 illustrate another component to the for-sale housing market. During the housing bust, the volume of sales significantly declined from over 60,000 sales per year to less than 40,000 sales per year. This decline meant that there were far fewer options in the market for potential buyers, which put greater downward pressure on demand. As pricing has begun to increase boosting overall confidence in the market, more sellers are entering the market providing more options for potential buyers, which is putting greater upward pressure on demand.

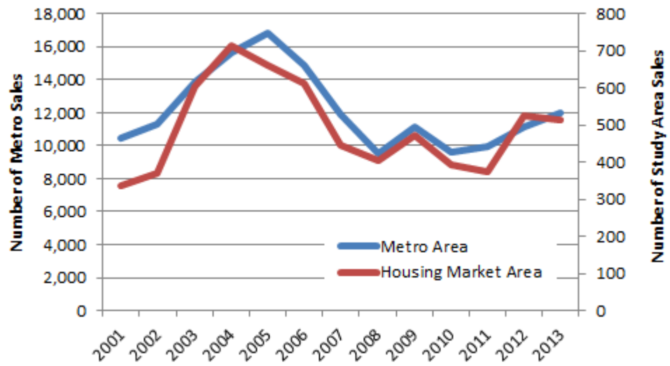
Within the condo and townhome market niche, the market trend in terms of sales has followed a similar pattern as the overall housing market. However, the drop in sales was even more pronounced, and, though the number of sales has begun to rebound, it remains below that of the overall market.

Figure 28: Total Home Sales by Year 2001-2013



Sources: NorthstarMLS; Stantec

Figure 29: Condo/Townhome Sales by Year 2001-2013



Sources: NorthstarMLS; Stantec

Competitive Supply

Stantec profiled several condominium and townhome developments near the study area that were built or converted within the last 10 years to learn the type of product that was brought to the market, its market position, achievable pricing, and market acceptance. Most for-sale multifamily housing in the Market Area consists of townhome projects located in the extreme southern portions of the Market Area where undeveloped land exists for new construction. As a result, we limited our profile of comparable properties to those located in fully built up areas similar to the study area.

Generally speaking, except for downtown St. Paul, there has been very little condominium development in the Market Area within the past 30 years. However, during the housing boom of the early 2000s, several projects did move forward in the Market Area. These properties are listed in Table 9 and include information on name of development, location, year opened/built, number of units, recent sales pricing, and original sales pricing.

Table 9: Most Recent Comparable Market Area Condominium and Townhome Developments

Project Name	Address	City	Year Open	Total Units	Sales in Previous 12 Months No.	Low	High	Avg $/SF	Original Pricing Low	High	Avg $/SF
LeVander Estates	601 LeVander Way	South St. Paul	2007	67	2	$130,000 -	$137,000	$101	$200,000 -	$275,000	$185
Wakota on Fourth	100 4th Ave N	South St. Paul	2005	36	2	$129,900 -	$135,000	$103	$160,000 -	$270,000	$183
Twin Pines	958-966 S Robert	West St. Paul	2005*	46	1	$52,500 -	$52,500	$68	$120,000 -	$150,000	$175
560 State Townhomes	562-570 State St	Saint Paul	2005	20	1	$125,000 -	$125,000	$89	$187,000 -	$195,000	$134

* Property was built in 1963 and converted to condominiums in 2005

Sources: Stantec; Regional Multiple Listing Service (MLS)

LeVander Estates and Wakota on Fourth are newly constructed three story condominium buildings located in South St. Paul. Wakota on Fourth is located near the city center, whereas LeVander Estates is located in a more suburban setting near Highway 52. Original pricing for the two projects was very similar at about $185 per square foot. Each project targeted local households looking to downsize from a single-family home but remain in the community. Wakota on Fourth opened up slightly earlier than LeVander Estates and thus was able to sell most of the units before the market fully collapsed. LeVander Estates, however, was unable to sell its units in a timely manner and most of them went into foreclosure, whereupon a new owner of many of the units sold the unoccupied units in 2011, typically at one-third to one-half the original pricing. The most recent sales of units in each project show some improvement over sales that occurred between 2007 and 2011; however, pricing is still only two-thirds of original pricing.

It should be noted that Sherman Associates marketed the Emerson Hill Condominiums in 2005 and 2006; a 35-unit project located one block south of the study area along South Robert Street. Although construction of the property had commenced, the condominium market collapsed prior to completion. After a financial restructuring of the property, it was immediately converted to market rate apartment building. Emerson Hill is more fully profiled in the Rental Market section of the report.

The only townhome development profiled is the 560 State Townhomes located about one mile north of the study area near Robert Street and Cesar Chavez Boulevard. These townhomes were developed with the assistance of a local non-profit community development organization. They are three-story units and generally appeal to families. Although recent sales are limited, it appears the units have depreciated since they were constructed, similar to many projects built at the peak of the housing boom. However, they also appear to have held a good deal of their value relative to the other projects profiled.

Also profiled is an apartment conversion that is located one block south of the study area along South Robert Street. The two-building project was built in the mid-1960s and converted to apartments in 2005. Presumably, at the time of conversion, the development would have undergone significant upgrades and improvements. This is indicative of the original pricing, which on a per square foot basis was nearly as high as the two newly built condominiums profiled. However, this project clearly experienced problems either in attracting a qualified target market or in the market positioning of the property. Recent sales have only been one-third of the original pricing, likely the result of one or more foreclosures at the property.

Pending Condominium/Townhome Developments

According to discussions with city staff in each community within the Housing Market Area, there are no competitive condominium or townhome projects in the development pipeline that would impact a for-sale multifamily development in the study area.

4.5 RENTAL MARKET

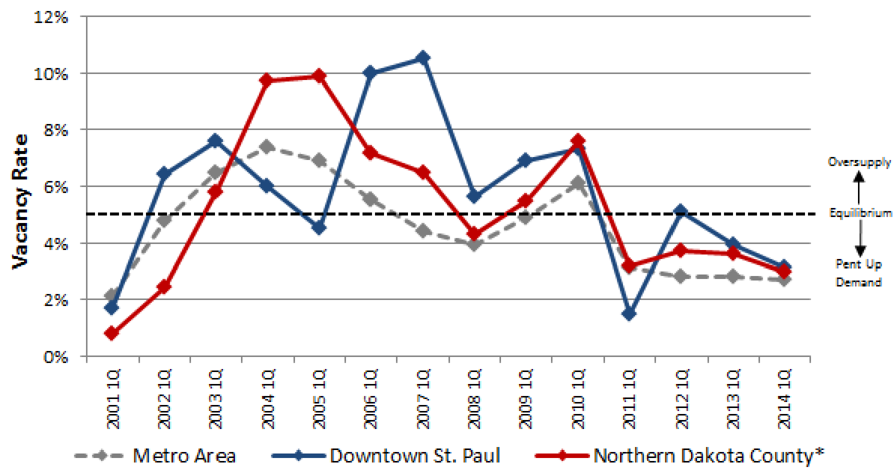
This section of the report provides information regarding the current rental market situation in the Market Area, identifies properties that would compete indirectly and directly with a project located in the study area, and discusses the existing and pending supply of rental housing in the Market Area.

Vacancy and Lease Trends

The apartment market has rebounded strongly after a period of high unemployment and lackluster job growth temporarily softened the rental market in 2009 (Figure 30).

In the wake of the recession, the overall vacancy rate in Northern Dakota County has dropped from a peak of 7.6% in 1st quarter 2010 to 3.0% as of 1st quarter 2014. This strengthening in the market means that the vacancy rate is now well below 5.0%, indicating strong pent-up demand in the market. The trend in Northern Dakota County has mirrored that of the Metro Area and Downtown St. Paul indicating that the forces influencing the demand for rental housing extend beyond the immediate market area.

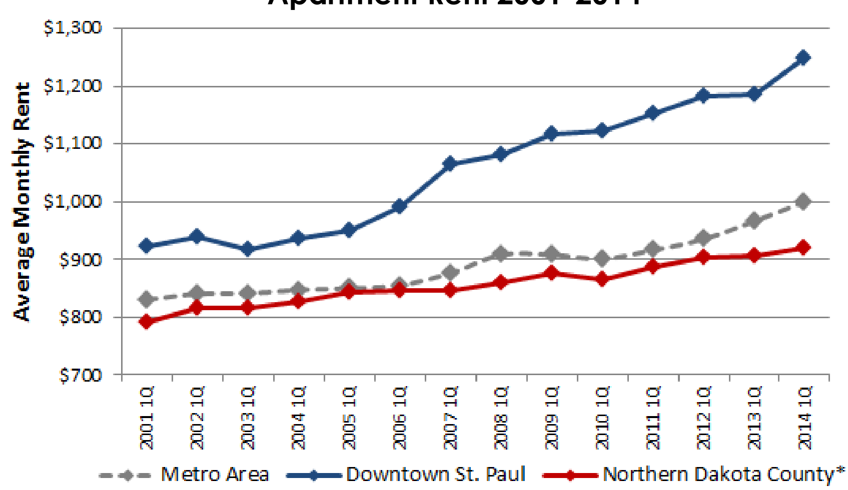
Figure 30: Apartment Market Vacancy Rates 2001-2014



* Includes the cities of West St. Paul, South St. Paul, Lillydale, Mendota Heights, and Inver Grove Heights
Sources: Marquette Advisors, *Apartment Trends*; Stantec

The average monthly rent in Northern Dakota County is currently $919 per month, which is a 6% increase since 2010 when the market experienced a temporary softening in demand (Figure 31). In contrast, the average rents for the metro area and downtown St. Paul have each increased 11% since 2010. This is largely due to the fact that new apartment construction in the downtown and throughout the region has pushed rents up higher on average. Typically, declines in vacancy precede increases in rent. Once rents increase enough, this will place pressure on the market to develop new rental housing.

Figure 31: Average Monthly Market Rate Apartment Rent 2001-2014



* Includes the cities of West St. Paul, South St. Paul, Lillydale, Mendota Heights, and Inver Grove Heights
Sources: Marquette Advisors, *Apartment Trends*; Stantec

It should be noted, though, that some of the demographic trends mentioned earlier regarding homeownership rates may profoundly impact the apartment market. Evidence appears to be growing that younger age groups are not embracing homeownership the way previous generations did. First, mortgage standards have returned to more stringent levels where the barrier to entry is much higher due to substantially larger down payments that are required on the part of banks. Second, with housing no longer appreciating at even modest levels the nest egg that so many previous generations created through homeownership is no longer seen as attainable. Third, for younger households vulnerable to high unemployment rates, homeownership can be viewed as reducing employment flexibility which further depresses demand. As a result, younger households are starting to choose rental housing as a preferred arrangement rather than a temporary situation prior to homeownership.

If these trends persist or become deeply established, the demand for rental housing could continue to increase in the coming years. These trends, however, are difficult to predict because of the large impact Federal policies have on homeownership. For instance, if the Federal government revamps Fannie Mae and Freddie Mac, the two big institutions that help support homeownership, in a way that help loosen lending standards, homeownership may again regain its value to younger generations. Conversely, if significant changes occur to the mortgage interest deduction allowed through the Federal tax code, this will have a profound impact on the rental market.

Competitive Supply

Stantec profiled comparable market rate properties located in the Market Area in order to gauge achievable pricing, desired features and amenities, renter profiles, and the impact of new supply on market demand. Properties less than 10 years old are typically evaluated because they usually best reflect current market preferences. Because new apartment development in Northern Dakota County has not occurred for many years, the scope of comparable apartments was broadened to include those up to 30 years old.

Table 10 through Table 12 list comparable properties in the Market Area and include data on the number of units by type, number of vacant units, rent levels, unit sizes, rent per square foot, in-unit features, and common area amenities. Data related to unit mix, sizes, and pricing has been separated into three tables because properties in Northern Dakota County and St. Paul tend to be somewhat more distinct markets as evidenced by the age of the properties. Furthermore, a separate unit mix and pricing table of recently opened St. Paul properties is also presented as these properties have yet to achieve stabilized occupancy and are still undergoing initial absorption. Table 13, which compares unit features and amenities, includes all of the profiled properties.

The rents shown in the tables are quoted rents and have not been adjusted for incentives or included utilities. It should be noted, however, that very few of the comparable properties include standard utilities (e.g., electric, gas/heat, or water/sewer/garbage). The following are key findings from Table 10 through Table 13:

Comparable Northern Dakota County Properties

- The combined vacancy rate of comparable Northern Dakota County properties is 3.0%. This is just above the metro-wide rate yet well below the five percent typically considered to be market equilibrium.

- The average monthly rent of comparable Northern Dakota County properties is $1,047, and the average price per square foot is $0.99. The average monthly rent is about $120 more than the overall Northern Dakota County average. This is not surprising since Northern Dakota County contains numerous smaller properties that date from the 1960s and 1970s that lack many of the features and amenities found at the profiled properties.

- Nearly 70% of the comparable Northern Dakota County units have two or more bedrooms. This reflects a market dynamic that skewed toward larger unit types in the 1980s and 1990s when many of the properties were built. It also suggests that there may be a gap in the supply of one-bedroom units due to shifting demographic trends.

- The average size of a unit is approximately 1,050 square feet, which also reflects the predominance of larger unit types. Regardless, even smaller unit types are sizable. For example, the average size for one-bedroom units is approximately 860 square feet.

- The average age of comparable Northern Dakota County properties is 25 years. The newest property profiled was built in 2006. Although apartment properties can be updated in order to maintain their marketability, properties more than 20 years old often have significant design elements (e.g., floor plan layouts, size of windows, architectural features, etc.) that are very difficult to change and thus impact the ability to achieve maximum market pricing.

- Common features and amenities include patio/balcony, air conditioning, dishwasher, disposal, party room, and fitness center. About half of the properties also feature an in-unit washer/dryer, sauna, hot tub, and play area. Many other features found at today's newer properties are generally not present, except a few cases, which include items such as tall ceilings, fireplace, walk-in closet, stainless steel appliances, business center, bike storage, and concierge services.

- Based on achievable pricing and amenities, Emerson Hill is the market leader in Northern Dakota County with an average rent per square foot of $1.20. Emerson Hill, however, was initially developed as a condominium and was converted to an apartment prior to completion because of the housing bust. This explains the high level of finishing found in the units. Nonetheless, it is a testament to the strength of the rental market that a smaller building with fewer common area amenities located in the oldest portions of West St. Paul can achieve such strong rents relative to its competition. Although Emerson Hill is a market rate property that is achieving comparably strong rents, it did receive public assistance in the form tax-increment financing (TIF) and a Met Council LCDA grant to help write down the cost of land acquisition.

Comparable St. Paul Properties

- Among properties with stabilized occupancy, those located in St. Paul have an overall vacancy rate of 3.4%, which is slightly above the Metro Area vacancy rates. With a number of new properties having recently opened or in the development pipeline, this rate will likely increase in the coming months as properties near the top of the market are often impacted in the short term by the opening of new properties.

- Properties that have recently opened and are currently in their initial lease-up have all reported that absorption has been strong despite increasing competition. However, some properties with unique selling points (e.g., the historic Pioneer-Endicott building) or minimal nearby competition (e.g., Victoria Park) have been absorbing even more rapidly.

- The average monthly rent for stabilized properties is $1,406, and the average price per square foot is $1.35. This is more than $400 above the metro area average. Moreover, properties that have recently opened have pushed rent levels much higher. Overall average monthly rent is $1,675 with a price per square foot of $1.76. This is indicative of a transformational market in which properties located in downtowns or other similar urban markets with a higher level of building amenity and, more importantly, neighborhood amenity, are achieving very high rents and altering the market.

- The high rent per square foot being achieved at many St. Paul properties is also related to a greater proportion of smaller unit types and overall smaller square footages. With strategic locations in neighborhoods with a high-degree of amenity, renters are willing to forgo space.

- Like many of the comparable Dakota County properties, in-unit features found at most properties are patio/balcony, walk-in closet, washer/dryer, and a full complement of kitchen appliances. However, some properties have distinguished themselves with features such as high ceilings, unique flooring, fireplace, and high-end kitchen finishes.

- As is common with more urban properties, common area amenities tend to be limited to smaller space needs and include such elements as a fitness room, party room, and business center. Underground parking is found at all of the properties. Some distinguishing amenities that properties try to feature are concierge service, a pool/spa, theater, rooftop deck, and even art gallery.

- Very few properties include utilities in the rent.

- Almost all of the properties profiled allow pets, which is an important emerging trend in order to attract lifestyle renters.

Table 10: Comparable Northern Dakota County Apartment Properties (Unit Mix & Pricing)

Project Name	Year Built	City	# of Units	Vac. Units	Rent Range	Rent Avg.	Square Feet Range	Square Feet Avg.	Avg. Per Sq. Ft.
Studio Units									
Southview Gables	1987	IGH	4		$917 - $927	$922	612 - 612	612	$1.51
Stone Ridge	1986	WSP	2		$650 - $650	$650	520 - 520	520	$1.25
Waterford Green	1990	SSP	10		$575 - $575	$575	475 - 475	475	$1.21
Subtotal/Average			**16**	**1**	**$917 - $927**	**$671**	**612 - 612**	**515**	**$1.30**
One-Bedroom Units									
Emerson Hill	2006	WSP	6		$900 - $1,000	$950	750 - 800	775	$1.23
Southview Gables	1987	IGH	150		$867 - $1,128	$998	789 - 961	875	$1.14
Stone Ridge	1986	WSP	12		$835 - $835	$835	800 - 800	800	$1.04
The Ridge	1986	WSP	2		$850 - $850	$850	848 - 848	848	$1.00
Waterford Green	1990	SSP	30		$695 - $745	$720	704 - 845	775	$0.93
Southview Greens	1989	IGH	11		$700 - $700	$700	800 - 1,200	1,000	$0.70
Subtotal/Average			**211**	**4**	**$695 - $1,128**	**$931**	**704 - 1,200**	**860**	**$1.08**
One Bedroom/Den Units									
Emerson Hill	2006	WSP	3		$1,000 - $1,200	$1,100	900 - 950	925	$1.19
Southview Gables	1987	IGH	24		$1,124 - $1,194	$1,159	1,062 - 1,062	1,062	$1.09
The Ridge	1986	WSP	4		$910 - $910	$910	900 - 900	900	$1.01
Stone Ridge	1986	WSP	4		$910 - $910	$910	900 - 900	900	$1.01
Subtotal/Average			**35**	**1**	**$910 - $1,200**	**$1,097**	**900 - 1,062**	**1,013**	**$1.08**
Two-Bedroom Units									
Emerson Hill	2006	WSP	26		$1,200 - $1,300	$1,250	950 - 1,150	1,050	$1.19
The Ridge	1986	WSP	42		$1,049 - $1,069	$1,059	1,000 - 1,000	1,000	$1.06
Southview Gables	1987	IGH	241		$958 - $1,262	$1,110	1,015 - 1,177	1,096	$1.01
Waterford Green	1990	SSP	82		$895 - $1,150	$1,023	956 - 1,294	1,125	$0.91
Stone Ridge	1986	WSP	42		$1,020 - $1,033	$1,027	1,110 - 1,190	1,150	$0.89
Southview Greens	1989	IGH	43		$750 - $750	$750	1,000 - 1,400	1,200	$0.63
Subtotal/Average			**476**	**12**	**$750 - $1,300**	**$1,058**	**950 - 1,400**	**1,104**	**$0.96**
Three-Bedroom Units (or larger)									
Greystone Heights	1995	IGH	100		$1,251 - $1,275	$1,263	1,300 - 1,300	1,300	$0.97
Waterford Green	1990	SSP	8		$1,250 - $1,250	$1,250	1,343 - 1,343	1,343	$0.93
Subtotal/Average			**108**	**7**	**$1,250 - $1,275**	**$1,262**	**1,300 - 1,343**	**1,303**	**$0.97**
Total/Average	**1989**		**846**	**25**	**3.0%**	**$1,047**		**1,054**	**$0.99**

Sources: Stantec; Marquette Advisors

Table 11: Comparable St. Paul Apartment Properties (Unit Mix & Pricing)

Project Name	Year Built	# of Units	Vacant Units	Rent Range	Rent Avg.	Square Feet Range	Square Feet Avg.	Avg. Rent Per Sq. Ft.
Studio Units								
Lofts at Farmers Market	2012	9		$971 - $1,134	$1,053	503 - 575	539	$1.95
Sibley Park Apartments	2001	20		$695 - $695	$695	516 - 516	516	$1.35
Sibley Court	2003	14		$645 - $695	$670	517 - 517	517	$1.30
Subtotal/Average		**43**	**1**	**$645 - $1,134**	**$762**	**503 - 575**	**521**	**$1.46**
One-Bedroom Units								
Lofts at Farmers Market	2012	41		$1,087 - $1,517	$1,302	569 - 855	712	$1.83
Riverview at Upper Landing	2005	151		$1,160 - $1,515	$1,338	670 - 962	816	$1.64
Rivers Crossing	2005	104		$1,150 - $1,250	$1,200	753 - 789	771	$1.56
Pointe at Rivers Crossing	2009	42		$1,015 - $1,225	$1,120	622 - 828	725	$1.54
Sibley Park Apartments	2001	39		$883 - $948	$916	686 - 818	752	$1.22
Sibley Court	2003	44		$770 - $945	$858	700 - 856	778	$1.10
Subtotal/Average		**421**	**11**	**$770 - $1,517**	**$1,189**	**569 - 962**	**776**	**$1.53**
One Bedroom/Den Units								
Lofts at Farmers Market	2012	4		$1,481 - $1,559	$1,520	847 - 847	847	$1.79
Riverview at Upper Landing	2005	73		$1,590 - $1,635	$1,613	994 - 1,094	1,044	$1.54
Rivers Crossing	2005	67		$1,250 - $1,350	$1,300	1,096 - 1,104	1,100	$1.18
Subtotal/Average		**144**	**3**	**$1,250 - $1,635**	**$1,465**	**847 - 1,104**	**1,065**	**$1.38**
Two-Bedroom Units								
Riverview at Upper Landing	2005	37		$1,735 - $2,350	$2,043	1,222 - 1,367	1,295	$1.58
Lofts at Farmers Market	2012	4		$1,796 - $1,874	$1,835	1,182 - 1,183	1,183	$1.55
Rivers Crossing	2005	80		$1,425 - $1,750	$1,588	1,087 - 1,474	1,281	$1.24
Pointe at Rivers Crossing	2009	42		$1,300 - $1,650	$1,475	1,009 - 1,453	1,231	$1.20
Sibley Park Apartments	2001	44		$1,199 - $1,199	$1,199	954 - 1,228	1,091	$1.10
Sibley Court	2003	55		$1,020 - $1,070	$1,045	979 - 1,026	1,003	$1.04
Subtotal/Average		**262**	**16**	**$1,020 - $2,350**	**$1,458**	**954 - 1,474**	**1,183**	**$1.23**
Two-Bedroom/Den Units								
Riverview at Upper Landing	2005	83		$1,890 - $2,350	$2,120	1,301 - 1,741	1,521	$1.39
Pointe at Rivers Crossing	2009	12		$1,550 - $1,650	$1,600	1,301 - 1,301	1,301	$1.23
Rivers Crossing	2005	23		$1,550 - $1,650	$1,600	1,474 - 1,474	1,474	$1.09
Subtotal/Average		**118**	**4**	**$1,550 - $2,350**	**$1,966**	**1,301 - 1,741**	**1,489**	**$1.32**
Three-Bedroom Units (or larger)								
Rivers Crossing	2005	67		$1,725 - $1,999	$1,862	1,413 - 1,568	1,491	$1.25
Pointe at Rivers Crossing	2009	8		$1,600 - $1,795	$1,698	1,458 - 1,466	1,462	$1.16
Sibley Court	2003	9		$1,350 - $1,350	$1,350	1,265 - 1,505	1,385	$0.97
Sibley Park Apartments	2001	11		$1,300 - $1,300	$1,300	1,479 - 1,479	1,479	$0.88
Subtotal/Average		**95**	**2**	**$1,300 - $1,999**	**$1,735**	**1,265 - 1,568**	**1,477**	**$1.17**
Total/Average	**2005**	**1,083**	**37**	**3.4%**	**$1,406**		**1,042**	**$1.35**

Sources: Stantec; Marquette Advisors

Table 12: Recently Opened St. Paul Apartment Properties (Unit Mix & Pricing)

Project Name	Year Built	# of Units	Rent Range	Rent Avg.	Square Feet Range	Square Feet Avg.	Avg. Rent Per Sq. Ft.
Studio Units							
Penfield	2014	24	$920 - $1,230	$1,075	550 - 575	563	$1.91
West Side Flats	2014	29	$985 - $985	$985	484 - 506	495	$1.99
Pioneer-Endicott	2014	19	$865 - $1,375	$1,120	366 - 706	536	$2.09
Subtotal/Average		**72**	**$865 - $1,375**	**$1,051**	**366 - 706**	**528**	**$1.99**
One-Bedroom Units							
Victoria Park	2014	54	$1,075 - $1,500	$1,288	545 - 758	652	$1.98
Penfield	2014	119	$1,245 - $1,725	$1,485	650 - 875	763	$1.95
West Side Flats	2014	87	$1,350 - $1,350	$1,350	646 - 744	695	$1.94
Pioneer-Endicott	2014	114	$1,112 - $1,975	$1,544	624 - 1,122	873	$1.77
Subtotal/Average		**374**	**$1,075 - $1,975**	**$1,443**	**545 - 1,122**	**764**	**$1.89**
One Bedroom/Den Units							
Penfield	2014	6	$1,500 - $1,840	$1,670	775 - 975	875	$1.91
Pioneer-Endicott	2014	12	$945 - $2,027	$1,486	712 - 1,547	1,130	$1.32
Subtotal/Average		**18**	**$945 - $2,027**	**$1,547**	**712 - 1,547**	**1,045**	**$1.48**
Two-Bedroom Units							
Penfield	2014	74	$1,700 - $2,250	$1,975	875 - 1,225	1,050	$1.88
West Side Flats	2014	62	$1,800 - $2,325	$2,063	962 - 1,308	1,135	$1.82
Pioneer-Endicott	2014	81	$1,283 - $3,002	$2,143	850 - 1,621	1,236	$1.73
Victoria Park	2014	107	$1,350 - $1,800	$1,575	860 - 1,200	1,030	$1.53
Subtotal/Average		**324**	**$1,283 - $3,002**	**$1,902**	**850 - 1,621**	**1,106**	**$1.72**
Two-Bedroom/Den Units							
Penfield	2014	5	$2,130 - $2,400	$2,265	1,025 - 1,475	1,250	$1.81
Pioneer-Endicott	2014	8	$2,687 - $3,200	$2,944	1,731 - 1,737	1,734	$1.70
Subtotal/Average		**13**	**$2,130 - $3,200**	**$2,683**	**1,025 - 1,737**	**1,548**	**$1.73**
Three-Bedroom Units (or larger)							
Penfield	2014	67	$2,125 - $2,530	$2,328	1,413 - 1,568	1,491	$1.56
Victoria Park	2014	11	$1,850 - $2,175	$2,013	1,479 - 1,479	1,479	$1.36
Subtotal/Average		**78**	**$1,850 - $2,530**	**$2,283**	**1,413 - 1,568**	**1,489**	**$1.53**
Total/Average	**2014**	**879**		**$1,675**		**953**	**$1.76**

Sources: Stantec; Project Websites

Table 13: Comparable Apartment Properties (Features and Amenities)

		Dakota County Comparables							St. Paul Comparables							New St. Paul Properties			
		The Ridge	Emerson Hill	Stone Ridge	Waterford Green	Southview Gables	Southview Greens	Greystone Heights	Pointe at Rivers Crossings	Rivers Crossing	Lofts at Farmers Market	Joseph's Pointe	Riverview at U. Landing	Sibley Court	Sibley Park Apartments	Victoria Park	Penfield	West Side Flats	Pioneer-Endicott
In-Unit Features	Private Entry									S						S	S	S	
	Fireplace		X			S		S		X			X				S		
	Vaulted/High Ceilings		S							X	X			X					X
	Hardwood Floors									X	X		X			X	X	X	
	Patio/Balcony	X	X	X	X	X	X	X	X	X	S	X	X	X	X	X	X	X	
	Air-Conditioning	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Walk-in Closet		X			S	X		X	X		X	X	X	X	X	X	X	S
	Microwave		X		X	X			X	X	X	X	X			X	X	X	X
	Dishwasher	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Disposal	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Washer/Dryer	X	X	H		X		X	X	X	X	X	X			X	X	X	X
	Granite Counters		S								X					X	X	X	X
	Stainless Steel Appliances		S								X				X	X	X	X	X
	Roman Tubs																X		
	Concrete/Marble Floor																		X
Paid Utilities	Water	X		X	X		X			X	X	X		X	X				
	Electric																		
	Gas					X					X								
	Heat	X				X	X				X								
Deposit Info	Security Deposit	$300		$300	$600	$300	$500	$500	$500	$300	$400	$250	$550	1 mo	$199				
	Notice	60		60	60	60	60	60	60	60	60	60	60	60	60				
	Application Fee	$35		$35	$25	$40	$35	$40	$50	$45	$50	$25	$45	$45	$45				
Pets	Pets Allowed	Cat	Both		Both	Both	Both	Both		Both	Both	Cat	Both	Cat	Cat	Both	Both	Both	Both
	Pet Deposit	none			$400	$500	$500	$250		$250	$650	$300	$500	$200	$400			$300	$300
Parking	Off-Street Parking	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Type	U	U	U	U	U	U	A	U	U	U	U	U	U	U	U	U	U	A
	Included in Rent		X	X	X	X	X	X				X	X						
	Rate	$50							$55	$50	$90			$80	$80				
Common Area Amenities	Pool			O	O	O	O	O	O	O						O	O	I/O	I
	Sauna	X			X	X											X		
	Whirlpool/Jacuzzi	X			X	X			X	X							X		
	Party Room	X		X	X	X	X	X	X	X	X	X	X	X		X	X	X	X
	Business Center					X			X	X	X	X	X			X	X	X	X
	Fitness Room	X	X	X		X	X	X	X	X	X		X			X	X	X	X
	Tennis					X													
	Volleyball																		
	Basketball																		
	Picnic Area															X	X	X	X
	Play Area	X		X		X										X			
	Laundry				X		X							X	X				
	Secure Entrance	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Elevator	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X	X
	Theater																		X
	Concierge																X	X	X
	Tanning Booth																		X
	Guest Suite																		
	Rooftop/Upper Level Deck										X						X	X	
	Bike Storage															X	X	X	X
	Gallery Room																X		

H = laundry hook-ups; S = Some Units; I = Indoor Pool; O = Outdoor Pool
U = Underground Parking; A = Attached Parking; D = Detached Parking
Sources: Marquette Advisors, *Apartment Trends*; Stantec

Figure 32: Summary of Comparable Market Area Apartment Properties

Emerson Hill
993 Robert Street
West St. Paul, MN 55118
Year Built: 2006
# of Units: 35
Rent Range: $900-$1,300
Avg Rent Per SF: $1.20
Occupancy: 95%

Lofts at Farmers Market
260 E 5th St
St. Paul, MN 55101
Year Built: 2012
# of Units: 58
Rent Range: $971-$1,874
Avg Rent Per SF: $1.81
Occupancy: 100%

Stone Ridge
2060 Charlton
West St. Paul, MN 55118
Year Built: 1986
# of Units: 60
Rent Range: $650-$1,045
Avg Rent Per SF: $0.98
Occupancy: 99%

Riverview at Upper Landing
400 Spring St
St. Paul, MN 55102
Year Built: 2005
# of Units: 344
Rent Range: $1,160 -$2,350
Avg Rent Per SF: $1.53
Occupancy: 97%

Waterford Green
2200 Southview
South St. Paul, MN 55075
Year Built: 1990
# of Units: 130
Rent Range: $575-$1,250
Avg Rent Per SF: $0.92
Occupancy: 96%

Sibley Court
484 Temperence St
St. Paul, MN 55101
Year Built: 2003
# of Units: 122
Rent Range: $645-$1,350
Avg Rent Per SF: $1.07
Occupancy: 98%

Southview Gables
4920 Ashley
Inver Grove Hgts, MN 55077
Year Built: 1987
# of Units: 415
Rent Range: $867-$1,262
Avg Rent Per SF: $1.06
Occupancy: 98%

Sibley Park Apartments
211 7th St E
St. Paul, MN 55101
Year Built: 2001
# of Units: 114
Rent Range: $695-$1,300
Avg Rent Per SF: $1.12
Occupancy: 96%

Southview Greens
4855 Babcock Trail E
Inver Grove Hgts, MN 55077
Year Built: 1989
# of Units: 54
Rent Range: $700-$750
Avg Rent Per SF: $0.70
Occupancy: 99%

Rivers Crossing
1735 Graham Ave
St. Paul, MN 55416
Year Built: 2005
# of Units: 341
Rent Range: $1,150-$1,999
Avg Rent Per SF: $1.28
Occupancy: 96%

Greystone Heights
5220 Greystone
Inver Grove Hgts, MN 55077
Year Built: 1995
# of Units: 100
Rent Range: $1,251-$1,275
Avg Rent Per SF: $0.97
Occupancy: 97%

Pointe at Rivers Crossing
1735 Graham Ave
St. Paul, MN 55416
Year Built: 2009
# of Units: 104
Rent Range: $1,015-$1,795
Avg Rent Per SF: $1.30
Occupancy: 96%

The Ridge
1380 Bidwell
West St. Paul, MN 55118
Year Built: 1986
# of Units: 48
Rent Range: $850-$1,069
Avg Rent Per SF: $1.05
Occupancy: 98%

Newer Market Rate Apartment Properties

West St. Paul Gateway Market Study

- Dakota County Properties (<30 yrs)
- St. Paul Properties (<10 yrs)
- St. Paul Properties (Recently Opened/Currently Absorbing)

June 20, 2014

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Stantec

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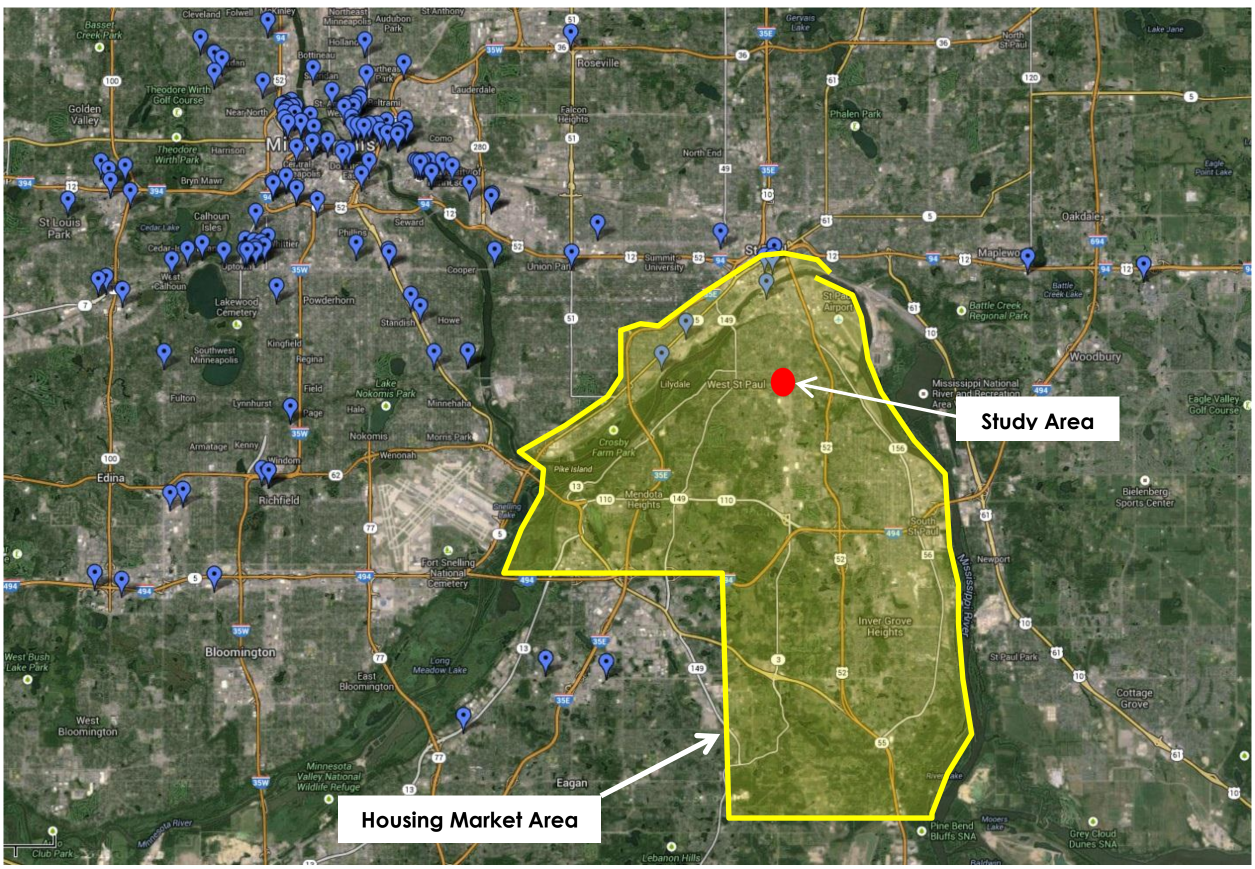
Pending and Proposed Rental Housing

The Twin Cities is currently in the middle of a strong wave of apartment construction. According to Finance and Commerce, a local business news publication, since 2011 over 6,000 apartment units throughout the Twin Cities metro area have been built with another 13,000 units in various stages of development. The uptick in apartment development began in earnest 24 to 36 months ago, and most of the attention has been focused on downtown Minneapolis, the University of Minnesota area, and select urban core neighborhoods. Development interest has now started to expand to Saint Paul and key nodes in a number of suburban communities.

Figure 34 illustrates where much of the recent and proposed development is located. There are a handful of projects identified in the Market Area, all of which, though, are located in St. Paul and most centered in or near the downtown. As previously noted, recent openings in the downtown include the 254-unit Penfield, which was developed by the City of Saint Paul, the 234-unit Pioneer and Endicott building, and 178-unit West Side Flats. Pending or proposed projects in the downtown include the Rayette building and the former US Post Office building.

Figure 34: Recent and Proposed Apartment Developments Tracked by Finance and Commerce



There are two significant developments located along West 7th Street in the Market Area. Dominium Development is refurbishing the former Schmidt Brewery into 260 units of affordable artist's lofts. This project is not listed in Table 12 because of the focus on artists, thus making it not comparable or competitive with a potential project in the study area. Stonebridge and Chase development are constructing 400 units as part of the Victoria Park development located just east of I-35E. The 172-unit first phase of this project is complete and absorption has been so rapid that the developers are already proceeding with phase two.

Stantec also learned through discussions with St. Paul city staff that the Neighborhood Development Alliance (NDA) is trying to develop one of several sites near Robert Street and Cesar Chavez Boulevard into a mixed-use building that would include some ground floor commercial space and approximately 40 units of affordable housing. This project is very tentative. However, it would be the closest potential apartment project to the study area if it were to move forward.

Although there has been significant new apartment development in downtown St. Paul and along west 7th Street, these areas, though considered part of the Market Area, are also somewhat distinct submarkets. Therefore, new developments in these areas will mostly impact any project in the study area indirectly and not directly. What they will do is change the expectations of the market since it is likely that those who would "shop" a property in the study area would also "shop" properties in downtown and along West 7th. In addition, if St. Paul becomes overbuilt with too many new properties, rent reductions or rent concessions may lower the barrier to entry at many of these properties, thus making them directly competitive with a property in the study area. For now, though, rental pricing is at a premium for these St. Paul properties, which separates them from being directly competitive.

4.6 MULTIFAMILY HOUSING DEMAND CALCULATIONS

Based on forecasted Market Area household growth and current trends in housing tenure, Stantec calculated potential demand for multifamily housing between 2014 and 2020 that could be captured within the study area (Table 14). The calculation includes estimates for market rate and affordable forms of rental housing as well as multifamily ownership housing (i.e., condominiums and townhomes).

Based on the calculation, the study area could capture up to 67 units of market rate rental housing, 200 units of affordable rental housing, and 50 condominium and/or townhome units.

Table 14: Calculated Multifamily Demand in the Study Area through 2020

		Rental		Ownership
Forecasted Market Area Household Growth 2014-2020[1]		4,600		
Propensity of New Households to Rent/Own[2]	x	45%		55%
Propensity for Multifamily Housing[3]	x	95%		40%
Multifamily Demand from Market Area Household Growth	=	1,967		1,012
Potential Demand from Outside the Market Area[4]	+	20%		20%
Total Multifamily Market Area Demand	=	2,458		1,265
		Market Rate	Affordable	
Breakdown of Demand by Affordability[5]	x	38%	62%	50%
Total Potential Market Area Demand by Affordability	=	934	1,524	633
Pending Market Area Units[6]	-	490	130	0
Remaining Unmet Market Area Demand through 2020	=	444	1,394	633
Potential Capture Rate of the Study Area[7]	x	10% - 15%	10% - 15%	5% - 8%
Estimated Multifamily Demand through 2020 in the Study Area	**=**	**44 - 67**	**139 - 209**	**32 - 51**

[1] Stantec

[2] As of 2010, 37% of Market Area households rent their housing. It is assumed that new household growth in the Market Area will have a slightly stronger propensity to rent because of demographic factors such as the aging of the Baby Boomers and new household formation among Millenials.

[3] Within the Market Area, about 5% of renters and 60% of homeowners live in single-family homes (U.S. Census).

[4] Additional demand from households outside the Market Area. This is estimated at 20% given the central location of the Market Area within the region, proximity to major employment centers, and access to high-frequency transit.

[5] **Rental:** Housing affordability is typically based on a combination of factors including household income, household size, and what is considered fair market rents. As a result, there are many different defnitions for what consititutes "affordable" housing. For the purposes of this study, households with annual incomes under $40,000 are considered to have incomes too low to afford typical market rents observed at newer comparable rental properties, which typically start at $1,000 per month. **Ownership:** New construction pricing typically starts at $200,000. Given a standard 20% downpayment and prvailing interest rates, qualifying household incomes would start at about $75,000.

[6] Pending "market rate" properties include phase II of Victoria Park (228 units) and 50% of proposed downtown projects (Rayette and Post Office) and 50% of the remaining unfilled units at recently opened properties (Penfield, Pioneer-Endicott, and West Side Flats). Only 50% of downtown properties are considered competitive because of much larger market area associated with downtown properties. Competitive "affordable" properties include 50% of the units at the Schmidt Brewery. Only 50% are considered competitive because the project is targeted to artists and thus has a much larger market area.

[7] The proximity of high-frequency transit and the greater incidence of renters to live without automobiles means the study area will be able to capture a greater proprtion of renter demand than ownership demand. Ownership housing, depending on the market niche, is generally influenced more by access to scenic and recreational amenities than transportation or retail amenities, thus the lower capture rate. Furthermore, the prevailing house values in the immediate neighborhhood will also serve to limit some demand from certain ownership markets that place a premium on their housing as an investment as much or more so than other criteria such as convenience to transit or other amenities.

Source: Stantec

5.0 RETAIL MARKET

This section addresses the condition of the retail market in the Trade Area and the potential of the South Robert Gateway Study Area to capture current and future demand.

5.1 OVERVIEW OF RETAIL PRINCIPLES

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

Cities have an interest in monitoring this constant market change to ensure that the total size of the retail development space is in line with retail demand. When retail development space is beyond the size that can be supported by market demand, vacancies become more common. This can be amplified by a "domino effect" caused by the common practice of co-tenancy where one tenant's lease requirements are tied to the condition that another tenant remains active in the center.

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

The other reason cities have an interest in monitoring the size of the retail market is to prevent an overly restrictive retail environment. When a city does not provide sufficient retail area to satisfy market demands, then the variety of retail options available to its customers may be reduced and economic activity is diverted to other communities. It is therefore very important that cities attempt to find a balance between the amount of retail development and retail market demand.

Types of Retail Centers and Goods

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

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

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

- Physical size
- Built form
- Metropolitan location
- Transportation access
- Size of Trade Area
- Mix of services and tenants
- Presence of competing centers

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

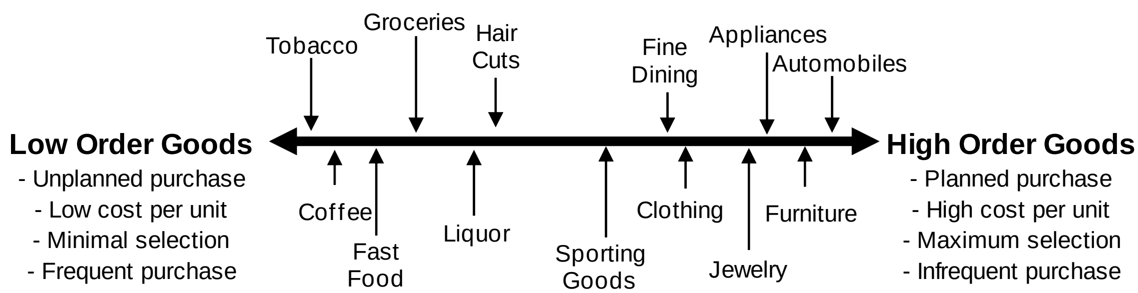
- Changes in the regional transportation system can alter the relative situation of individual retail centers, e.g. freeway or transit station proximity.
- A boom in construction of retail centers during the 1960s-1980s resulted in an overbuilt retail market in many communities today.
- Aging retail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

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

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

Goods are often classified on a relative scale from lower order to higher order goods. Lower order goods are those goods which consumers need frequently and therefore are willing to travel only short distances for them. Higher order goods are needed less frequently so consumers are willing to travel farther for them. These longer trips are usually undertaken for not only purchasing purposes but other activities as well. Figure 35 demonstrates where some of the common goods and services might fall along this continuum.

Figure 35: Hierarchy of Retail Goods and Services



The Urban Land Institute (ULI) approximates the size of a Trade Area in a rough manner, in terms of a distance radius surrounding a center. Table 15 presents the rough Trade Area calculations, working from the smallest level (convenience center) up to the largest level (regional or super-regional center).

Table 15: General Trade Area Characteristics of Retail Centers

Center Type	Anchor Type	Gross Leasable Area (square feet)	Minimum Population to Support	Trade Area Radius (miles)	Trade Area Drive Time (minutes)
Convenience	Suprette/Small Grocery	<30,000	3,000 - 15,000	<1.5	<5
Neighborhood	Drug Store/Grocery	30,000 - 100,000	15,000 - 40,000	1.5 - 3	5 - 10
Community	Supermarket/Discount Merchandise	100,000 - 300,000	40,000 - 150,000	3 - 5	10 - 20
Regional/Super-Regional	Department Stores/Entertainment	300,000+	150,000+	5 - 12	20 - 30

Source: Urban Land Institute

In reality, the draw areas and minimum supportive populations for retail centers vary considerably across the country, depending on surrounding housing density and the attraction of the specific retail tenants. Stores in higher-density areas can thrive with smaller Trade Areas; stores that are popular in the local market (e.g. Target in the Twin Cities) can thrive with a smaller population base because they garner considerably higher brand loyalty than their competition.

Relationship between Retail Demand and Demographics

This section discusses demographics on a general scale, introducing the concepts of consumer segments and the value of alignment between tenants and surrounding households (as measured through demographic information).

Retailers capture sales from five main categories of consumers: residents, daily workers, commuters, intermittent (transitory) visitors, and destination shoppers. Of these, residents are usually the main source of income for most retailers.

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

Resident Consumers

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

Daily Workers

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

Intermittent Visitors

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

Commuters

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

Destination Shoppers

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

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

For example, a strip retail center located adjacent to a subdivision of starter homes with young families would offer such tenants as a grocery store, a hardware store, a drugstore/pharmacy, and family restaurants among others. A retail center in an inner-city urban area with few families would offer independent coffee shops, bookstores, niche restaurants with bars, and other specialty stores catering to singles and professionals.

5.2 RETAIL TRADE AREA DEFINITION

The retail trade area for the study area includes West St. Paul, the northern third of South St. Paul, and the West Side neighborhood of St. Paul. This generally corresponds to a 1.5- to 2-mile radius around the study area (Figure 36).

Important characteristics and/or influences affecting the size and shape of the trade area include the Mississippi River and its limited crossings and the significant concentration of existing retail located further south along South Robert Street. The presence of existing retail south of the study area means that the study area will draw from a small Trade Area and would depend on regular visits by nearby residents and workers. Examples of retail stores that serve this need include drug stores, hair and nail salons, drycleaners, pizza delivery, cell phone stores, coffee shops, sandwich shops, to name a few. Since the primary benefit provided by neighborhood oriented retailers is convenience, it is expected that only a small number of other retail nodes will directly compete with the study area as most shoppers will typically not skip over one neighborhood oriented retail node to go to another one.

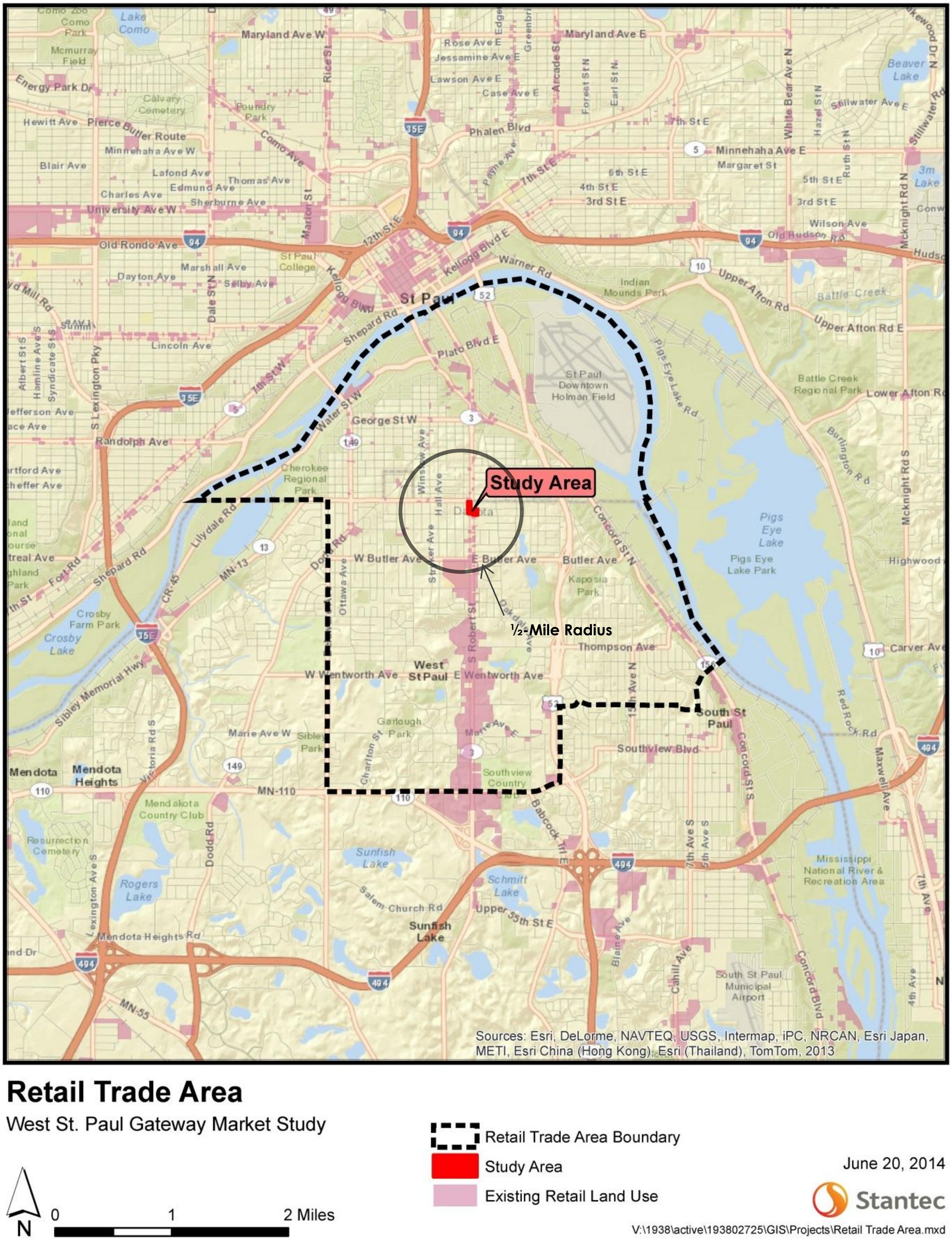
5.3 TRADE AREA DEMOGRAPHICS

Table 16 displays population and household growth trends for the retail trade area, a ½-mile walkshed around the study area, and, for comparison purposes, West St. Paul, Dakota County, and the metro area. The Trade Area is estimated to have a population of about 42,000 and

Table 16: Retail Trade Area Population and Household Growth Trends 2000-2020

	Census		Estimate	Forecast	Change '00-'10		Change '10-'20	
Geography	2000	2010	2014	2020	No.	Pct.	No.	Pct.
Population								
1/2-Mile Walkshed	4,073	4,285	4,361	4,475	212	5.2%	190	4.4%
Retail Trade Area	41,490	40,580	41,988	44,100	-910	-2.2%	3,520	8.7%
West St. Paul	*19,405*	*19,540*	*20,117*	*21,200*	*135*	*0.7%*	*1,660*	*8.5%*
Dakota County	*355,904*	*398,552*	*413,795*	*441,700*	*42,648*	*12.0%*	*43,148*	*10.8%*
7-County Metro Area	*2,642,056*	*2,849,567*	*2,962,826*	*3,124,300*	*207,511*	*7.9%*	*274,733*	*9.6%*
Households								
1/2-Mile Walkshed	1,462	1,635	1,653	1,680	173	11.8%	45	2.8%
Retail Trade Area	16,499	16,206	16,584	17,150	-293	-1.8%	944	5.8%
West St. Paul	*8,645*	*8,529*	*8,771*	*9,200*	*-116*	*-1.3%*	*671*	*7.9%*
Dakota County	*131,151*	*152,060*	*158,456*	*171,000*	*20,909*	*15.9%*	*18,940*	*12.5%*
7-County Metro Area	*1,021,454*	*1,117,749*	*1,158,953*	*1,230,000*	*96,295*	*9.4%*	*112,251*	*10.0%*

Sources: US Census; Metropolitan Council; Stantec


Study Area
½-Mile Radius
St Paul
West St Paul
South St Paul
Mendota Heights
Mendota
S Robert St
E Butler Ave
W Butler Ave
E Wentworth Ave
W Wentworth Ave
Thompson Ave
Marie Ave W
Southview Blvd
Concord St N
Plato Blvd E
George St W
Cherokee Regional Park
Kaposia Park
St Paul Downtown Holman Field
Pigs Eye Lake
Battle Creek Regional Park
Sunfish Lake
Schmitt Lake
Rogers Lake
Mississippi National River & Recreation Area
South St Paul Municipal Airport
Sources: Esri, DeLorme, NAVTEQ, USGS, Intermap, iPC, NRCAN, Esri Japan, METI, Esri China (Hong Kong), Esri (Thailand), TomTom, 2013
Retail Trade Area
West St. Paul Gateway Market Study
Retail Trade Area Boundary
Study Area
Existing Retail Land Use
June 20, 2014
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a household base of just over 16,200. The Trade Area experienced a decline in population and households between 2000 and 2010, but is forecasted to grow substantially by the end of the decade. Within a comfortable walking distance of the study area, there are about 4,400 residents and 1,650 households, which is about one-tenth the size of the Trade Area.

Table 17 presents household income trends by age for the Trade Area, the study area walkshed, and the metro area. As of 2012, the year most recent income data are available, the Trade Area had an overall median household income of just over $47,000. This was nearly $20,000 below the metro area median and means that the spending power of Trade Area households is very constrained. Furthermore, the trend from 2000 to 2012 indicates that income growth in the Trade Area is well behind the metro area, especially among households age 45 to 64, which is typically the peak earning years for most households.

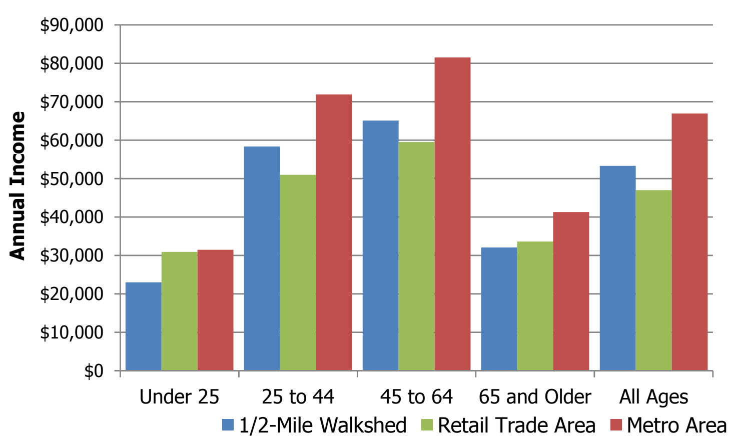
Figure 37 emphasizes how household incomes for all age groups within the Trade Area are below the metro area, but especially among age groups during the peak earning years of 25 to 44 and 45 to 64.

Table 17: Retail Trade Area Median Household Income Trends 2000 & 2012

	1/2-Mile Walkshed			Retail Trade Area			Metro Area		
Age Group	2000	2012	Change	2000	2012	Change	2000	2012	Change
Households under 25	$33,409	$23,000	-31.2%	$27,375	$30,911	12.9%	$29,181	$31,491	7.9%
Households 25-44	$47,098	$58,343	23.9%	$46,270	$50,945	10.1%	$58,616	$71,857	22.6%
Households 45-64	$51,107	$65,071	27.3%	$55,814	$59,470	6.6%	$67,861	$81,490	20.1%
Households 65+	$22,976	$32,059	39.5%	$26,352	$33,633	27.6%	$31,233	$41,301	32.2%
All Households	$44,130	$53,316	20.8%	$42,027	$47,010	11.9%	$54,807	$66,896	22.1%

Source: US Census: 2000 Census; 2008-2012 American Community Survey

Figure 37: Median Household Income 2012



Source: US Census

5.4 RETAIL MARKET CHARACTERISTICS

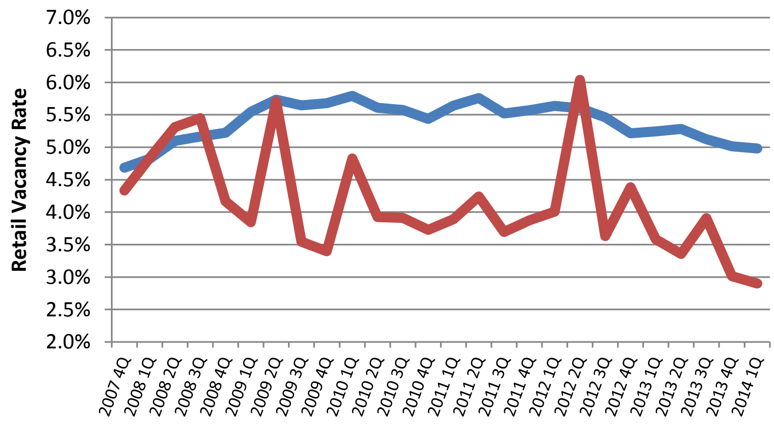
Vacancy and Lease Trends

Stantec analyzed trend data on the retail vacancy and lease rates for the Retail Trade Area and compared those against the rates for all retail properties throughout the metro area (Figure 38 and Figure 39).

Between 2007 and 2014, the vacancy rate for the Trade Area spiked above 5.5% in late 2008, early 2009, and again in 2012, but otherwise has been consistently below 4.0% and is currently under 3.0%. The current vacancy rate is very low suggesting that there is minimal space available for new retailers to enter the Trade Area or successful existing retailers to expand.

In comparison, the metro-wide vacancy rate steadily increased between 2007 and 2010 when it plateaued around 5.7%. With the economy recovering from recession, the metro vacancy rate has been declining since 2012 and is currently at 5.0%.

Figure 38: Trade Area and Metro Area Retail Vacancy Rate 2007-2014

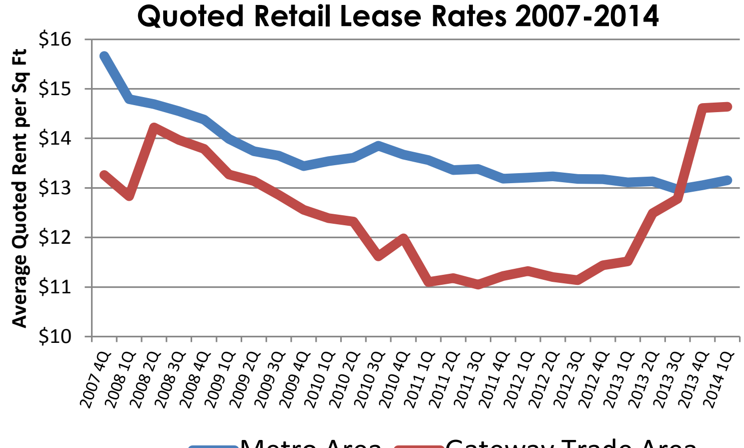


Source: CoStar

In terms of quoted lease rates, available space in the Trade Area is currently averaging just under $15 per square foot. The average asking price has increased significantly since 2011 when it was at a low of $11 per square foot. This rise in asking price has been commensurate with a decline in vacancy, both of which are strong signs of the strength of the current retail market in the Trade Area.

Quoted lease rates across the metro area have generally declined in recent years and have only begun to show signs of increasing in the most recent quarter. Asking prices peaked in 2007 at nearly $16 per square foot and then decreased until 2011 when they plateaued around $13 before the most recent, though, nominal, increase.

Figure 39: Trade Area and Metro Area Quoted Retail Lease Rates 2007-2014



Source: CoStar

Competitive Retail Situation

Although the study area is located at the center of the defined Trade Area, the vast majority of retail offerings in the Trade Area are well over a mile south of the study area. In addition, the concentration of retailers in this portion of the Trade Area is distinctly different than those located closer to the study area. The southern portion of the Trade Area contains many large national "big-box" retailers, such as Target, Wal-Mart, Home Depot, and Lowe's, two major grocers (Cub Foods and Rainbow Foods), and numerous other smaller, national chain retailers. These properties are situated in more suburban conditions with buildings set well back from South Robert Street and ample parking. Also, highway accessibility is superior for these retailers given the relatively easy access to I-494 and Highway 110. As a result, the concentration of retailers in this part of South Robert Street draw customers from well beyond the study area's Trade Area.

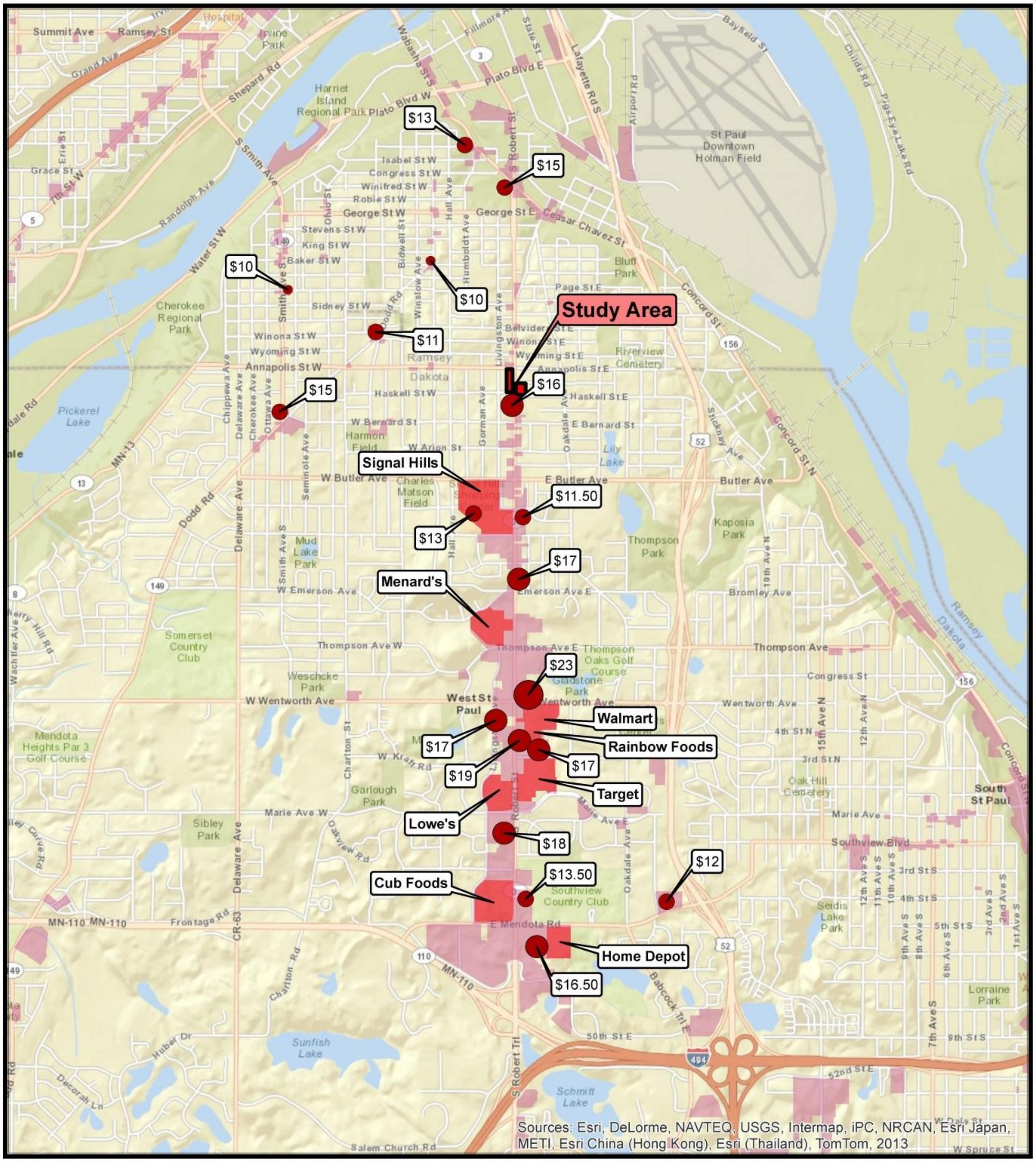
The presence of this amount and type of retail so near the study area means that only small scale neighborhood- or convenience-oriented retail that serves local residents would be supported within the study area. A map of the major retailers and active listings on the following page illustrates how retail uses are organized within the Trade Area and along South Robert. According to interviews with commercial real estate brokers familiar with the Trade Area, the intersection of Wentworth Avenue and South Robert Street is generally considered the "100%" corner of the South Robert corridor and commands the highest rents due to high traffic counts, relatively easy access to I-494 and Highway 52, and the close presence of several large big-box stores that serves as anchors to the area.

The study area, in contrast, is generally considered by the commercial brokerage community as being outside of the positive influence of the big-box stores and therefore highly dependent on nearby local households, which have incomes below what many national chain retailers require as part of their site selection process.

To gain a better understanding of the market response to newer retail development in the northern portion of the Trade Area, closer to the study area, Stantec interviewed commercial real estate brokers who currently or have recently listed nearby retail space.

Emerson Hill Center

Emerson Hill Center is an 8,000 square foot building currently under construction one block south of the Study Area on the west side of South Robert Street. This property is being developed by Sherman Associates who developed an apartment building (Emerson Hill Apartments) adjacent to the property about eight years ago. The building is being built to the sidewalk along Robert Street and will have significant windows fronting the street. Quoted asking price for the space is $16 per square foot, which is $7 less than comparable newer strip retail space located 1½ miles south at Wentworth and South Robert.



Major Retail Areas and Active Listings with Asking Price per Square Foot

West St. Paul Gateway Market Study

N

0 3,000 6,000 Feet

Asking Price per Sq Ft
- Up to $10
- $10 to $15
- $15 to $20
- More than $20

- Study Area
- Major Retail Properties
- Existing Retail Land Use

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Emerson Hill Center (963 South Robert Street)

According to a representative from Sherman Associates, there has been interest in the space but no serious opportunities have arisen as of late. At one point several years ago, prior to construction of the space, Sherman Associates was in serious discussions with Aldi, a discount, limited –service grocery chain. At the time, Aldi wasn't able to find space in other portions of the South Robert corridor that met their needs and thought the Emerson Hill Center location would suffice. During the course of negotiations, however, a space further south in the Trade Area became available and Aldi opted for that location instead. The Dollar Store was also interested in the location at one time but there was not enough room for a truck turning radius. For the last two to three years, marketing efforts have shifted away from traditional retail and toward more retail-service or medical-retail tenants. Interest among these target markets have been primarily from small proprietors that serve the local neighborhood, however the rents associated with new construction have been the primary barrier.

Adjacent to the building under construction, Sherman Associates also controls additional vacant land in which they plan to build a second similar retail building per a development agreement that has been in place since the Emerson Hill Apartments were built. The timing of the second building, however, is unknown since the current building has yet to be leased.

Dakotah Apartments Commercial Space

Dakotah Apartments Commercial Space (882-900 Robert Street)

Located next to the study area, the Dakotah Apartment building was built in 2004 by the Dakota County CDA with approximately 6,600 square feet of retail space. A non-profit social service agency (CLUES) has been a primary tenant since 2007, and the Thomas Service Company recently occupied approximately 2,500 square feet in 2013. When the Dakotah County CDA worked with Tammy Brown, a commercial real estate broker, to fill ground floor retail space in the building several years ago worked, she noted that it was very challenging to find qualifying tenants because most of the interest in the space was from small, independent businesses looking for net rents around $7 per square foot, which were $8-$12 less than what was needed to keep the space viable. Common business types that were interested in the space included salons, restaurants, and corner grocery stores. In addition, many of those interested in the space were proprietors of start-up businesses. Therefore, the credit history and overall likelihood that the business would remain viable throughout the terms of the lease was a barrier as well.

5.5 PENDING RETAIL DEVELOPMENTS

There is one pending retail development in the Trade Area that is imminent. The project is located at the southwestern corner of South Robert Street and Wentworth Avenue. Plans at this site call for the redevelopment of several existing properties into a new 35,000 square foot LA Fitness and 12,000 square foot retail strip center that will be occupied by several of the same retailers who currently occupy an existing retail strip center that will be torn down and reconstructed. Critical sites are currently being acquired and development is imminent.

Dakotah Apartments Commercial Space (882-900 Robert Street)

According to staff at the City of West St. Paul, it was noted that they have received a significant amount of interest as of late to redevelop additional properties located along South Robert Street. Although many of these discussions are too preliminary to cite their likely impact on development in the study area, city staff was clear that the current level of developer interest is a strong increase over the level of interest experienced prior to and during the recession.

Staff at the City of St. Paul was contacted about any potential new development plans in the West Side neighborhood that might be affect or influence development in the study area. There is no known plan to redevelop any of the commercial properties adjacent to the study north of Annapolis Street. However, staff at the City of St. Paul mentioned that NDA, a non-profit community development organization, has plans to redevelop several sites near the intersection of South Robert Street and Cesar Chavez Boulevard. On two of the sites, proposals have included small “flexible” commercial space to accommodate local proprietors or specific market niches, such as a bike shop. Although NDA has applied for LCDA grants from the Metropolitan Council to help with development costs, no imminent plans are in place to move any of the projects forward.

5.6 RETAIL DEMAND CALCULATIONS

Table 18 illustrates the methodology used to calculate retail demand in the Trade Area and the much smaller study area walkshed. Demand for retail space is driven mostly by the spending power of Trade Area households and the supply of existing retail options. Table 18 indicates that there currently is an excess supply of retail space in the Trade Area that exceeds the demand generated by the spending power of Trade Area households. By 2020, however, forecasted household growth in the Trade Area will help boost household spending to the point that additional retail space will be needed to meet the demand. This assumes, however, that there will be no net change in the amount retail space in the Trade Area by 2020.

Table 18: Retail Demand Calculations

		Trade Area		Walkshed	
		2014	2020	2014	2020
Households		16,600	17,150	1,650	1,680
Average Household Income[1]		$59,200	$62,160	$58,800	$61,740
Aggregate Household Income	=	$982,720,000	$1,066,044,000	$97,020,000	$103,723,200
(times) Percent of Income Spent on Neighborhood Retail Goods[2]	x	17%	17%	17%	17%
(equals) Resident Household Consumer Dollars	=	$167,062,400	$181,227,480	$16,493,400	$17,632,944
(plus) Retail Spending by Daytime (Non-Resident) Workers[3]	+	$3,600,000	$3,600,000	$180,000	$180,000
(equals) Retail Spending Potential	=	$170,662,400	$184,827,480	$16,673,400	$17,812,944
(divided by) Average Sales per Square Foot[4]	÷	$250	$250	$200	$200
(equals) Estimated Trade Area Demand for Retail Space	=	682,650	739,310	83,367	89,065
(less) Existing Supply of Neighborhood Retail Space[5]	-	700,000	700,000	115,000	115,000
(equals) Additional Retail Space that could be Supported	**=**	**-17,000**	**39,000**	**-32,000**	**-26,000**

[1] Figures are in 2010 dollars. 2020 income is adjusted downward by 3% due to the continued aging of the huosehold base, which results in less spending on traditional retail goods and services.

[2] US Department of Labor, Bureau of Labor Statistics: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2008. Percentage for 2020 is adjusted downward slightly to account for increased on-line purchases of goods. Neighborhood retail excludes categories of goods, such as apparel and other durable goods, which are typically purchased at large regional centers.

[3] Assuming roughly 10,000 daily workers in the Trade Area and 500 in the walkshed and an average daily spending of $1.50 during the "work" year (Monday-Friday; 240 days per year).

[4] *Dollars and Cents of Shopping Centers* (Urban Land Institute). Walkshed has lower sales per square foot given the predominance of older commerical properties that have minimal debt service requirements.

[5] CoStar

Source: Stantec

For comparison purposes, also presented in Table 18 is the calculation for retail demand within the walkshed. This was conducted in order to determine if the presence of large national retailers concentrated at the southern end of the Trade Area is somehow skewing the calculations and masking the demand for neighborhood oriented retail. According to the calculations, there is a substantial oversupply of retail space within the walkshed relative to the number of households.

6.0 OFFICE MARKET

This section addresses the condition of the office market and the potential of the South Robert Gateway Study Area to capture current and future demand.

6.1 OVERVIEW OF OFFICE MARKET DYNAMICS

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

The office market is a very broad category that encompasses many different types of properties that are typically differentiated by the building class (A, B, C); visibility, transportation access, structure, size of tenant spaces and supporting services. Some of the office market subcategories are as follows:

High Rise or Signature Building

Office buildings of this type place a premium on visibility and image. They are typically multi-tenant buildings with a high level of architectural interest. Level of finish is generally high. The tenant mix tends to be businesses that are willing to pay a premium for image including corporate headquarters, law firms, financial advisors, advertising and other types of business services. These buildings are typically found in the commercial center of a metropolitan area, at the intersection of high volume highways and near very affluent suburban locations.

Low-Rise, Multi-Story Building

Office buildings of this type have the most variety of physical conditions and tenant mix. Class A buildings in this class can have many similar features to the high rise buildings and command elevated rents. Class B and C space can be dated and needs to compete more on price. Typical locations for this class of office space are near regional malls and along arterial roadways in suburban locations. The tenant mix has a wide variety and can include smaller corporate headquarters, medical, technology, design, government and business services.

Single Story Building - Retail

Office buildings of this type share a lot of physical and location characteristics with neighborhood and strip retail. Buildings of this type often are located near retail areas where there is a reasonable amount of visibility and customer traffic. Tenant spaces are generally smaller in size and the businesses usually have some level of walk-in customer traffic that justifies the need for visibility. Typical tenants in this building type include insurance, real estate brokerage, medical services, and financial services.

Single Story Building - Flex

Office buildings of this type share many physical and location characteristics with light industrial buildings. They are often located in lower visibility areas where land prices are lower, enabling a reduced rent structure in comparison to other office types. Transportation access is important but does not always need to be direct as walk in traffic is often not a key issue for the tenants. Building shells involve industrial construction techniques and building heights. Tip up concrete panels or concrete block are common shell materials but the level of finish often includes some retail finish including colored concrete, stucco, spandrel glass, tenant signage and attempts to vary the appearance of flat rooflines or building faces.

The level of aesthetic enhancement varies greatly in this sector based on each community's standards and regulatory controls. Tenants in this building type tend to be office uses that require back office warehousing or light manufacturing; construction/repair related businesses that maintain some inventory, such as window or garage door installers; price sensitive large office users, such as call centers; and startup businesses that seek the lower cost and expansion flexibility of a flex building.

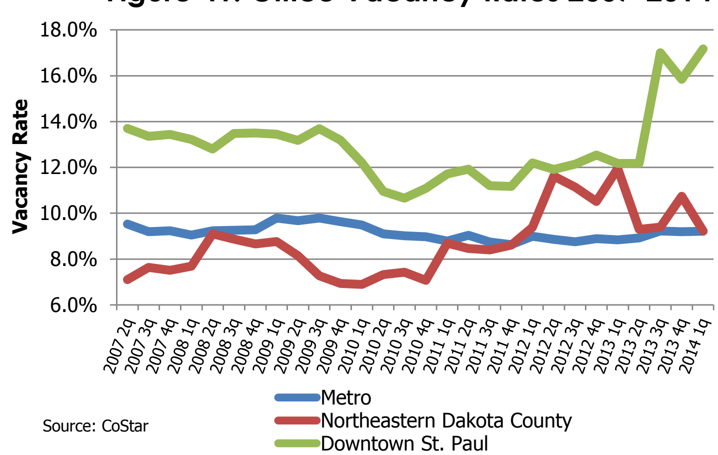
6.2 OFFICE TRADE AREA CHARACTERISTICS

Vacancy and Lease Trends

Stantec analyzed trend data on the office vacancy and lease rates for northeastern Dakota County and downtown St. Paul and compared those against the rates for all office properties throughout the metro area (Figure 41 and Figure 42).

Since 2010 the vacancy rate for office space in northeastern Dakota County, which includes the study area, has increased from 7% to a peak of 12% and is currently just over 9%, which is similar to the metro area vacancy rate. Market equilibrium is typically considered to be between 10% and 12% vacancy for office space because this allows for the flexibility of existing tenants to easily expand without relocating when leases expire. In downtown St. Paul, however, the office vacancy rate has spiked rapidly in the last

Figure 41: Office Vacancy Rates 2007-2014

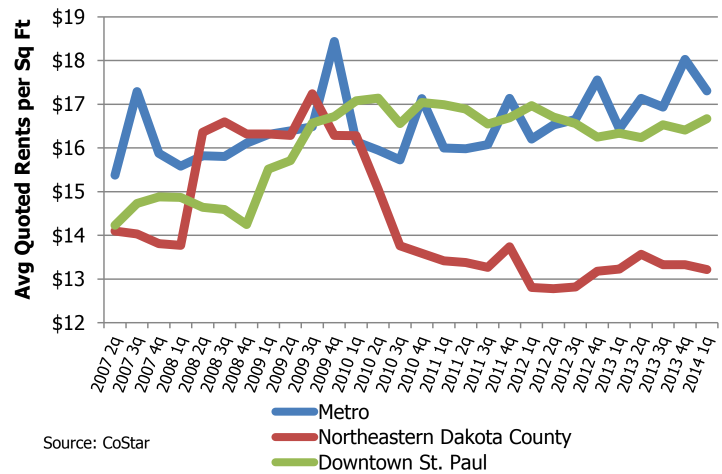


Source: CoStar

year and is currently above 17%. Downtown St. Paul is one of the largest and most important office submarkets in the metro area and its high vacancy rates, which have been endemic for a number of years, impact surrounding submarkets because of concessions and other lease deals that are used to lure office users into the downtown.

In terms of average quoted lease rates for office space, properties in northeastern Dakota County are averaging just above $13 per square foot, which is well below the metro area and downtown St. Paul average quoted rates. This is because northeastern Dakota County does not have any "Class A" office space to drive average lease rates upwards.

Figure 42: Quoted Office Lease Rates 2007-2014



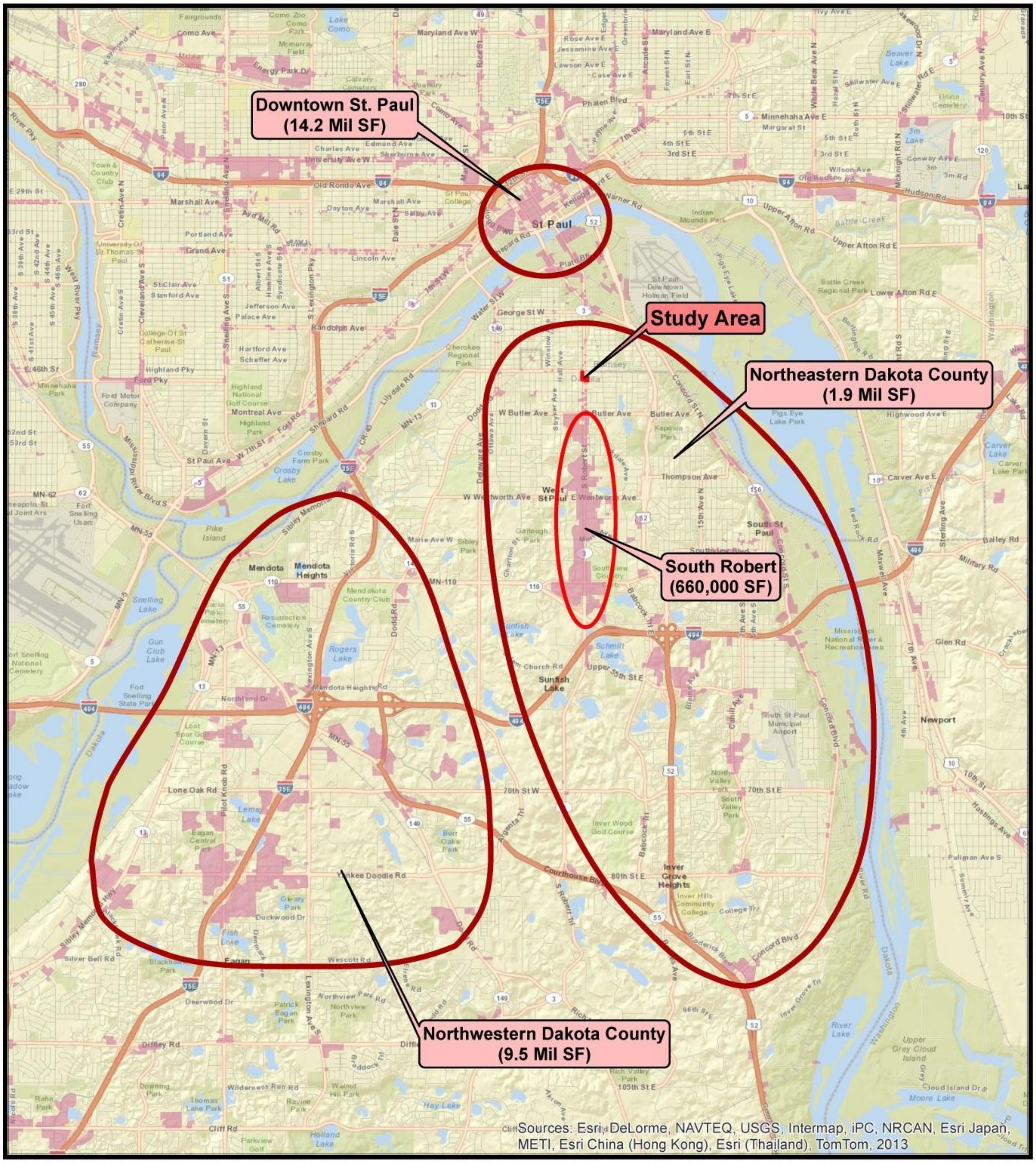
Competitive Office Situation

Stantec profiled the major office districts proximate to the study area to better understand how the Robert Street Corridor compares with these other districts and the market position it fulfills. Table 19 provides a summary of comparable statistics. Also provided are maps of the competitive districts and the location of active listings near the study area. Following the exhibits are key findings from the analysis.

Table 19: Competitive Office Districts

	Proper-	Leasable	Vacant	Vac	Quoted Rents per sf			Class A Properties			
Office District	ties	Sq. Ft.	Sq. Ft.	Rate	Low	High	Avg.	Bldgs	Leasable sf	Vacant sf	Vac Rate
Robert Street Corridor	49	657,643	57,619	8.8%	$7.00	$17.00	$13.24	0	--	--	--
NE Dakota County	144	1,932,145	178,200	9.2%	$7.00	$18.50	$13.22	0	--	--	--
NW Dakota County	134	9,544,712	532,385	5.6%	$7.00	$30.00	$14.61	7	586,186	38,462	6.6%
Downtown St. Paul	94	14,178,243	2,435,410	17.2%	$8.68	$18.50	$16.78	11	4,257,621	576,989	13.6%
Metro Area	6,066	187,821,321	17,306,639	9.2%	--	--	$17.30	144	48,008,366	3,786,108	7.9%

Sources: CoStar; Stantec



Office Markets and Submarkets

West St. Paul Gateway Market Study

Study Area

Existing Office and Commercial Land Use

N

0 1.5 3 Miles

June 20, 2014

Stantec

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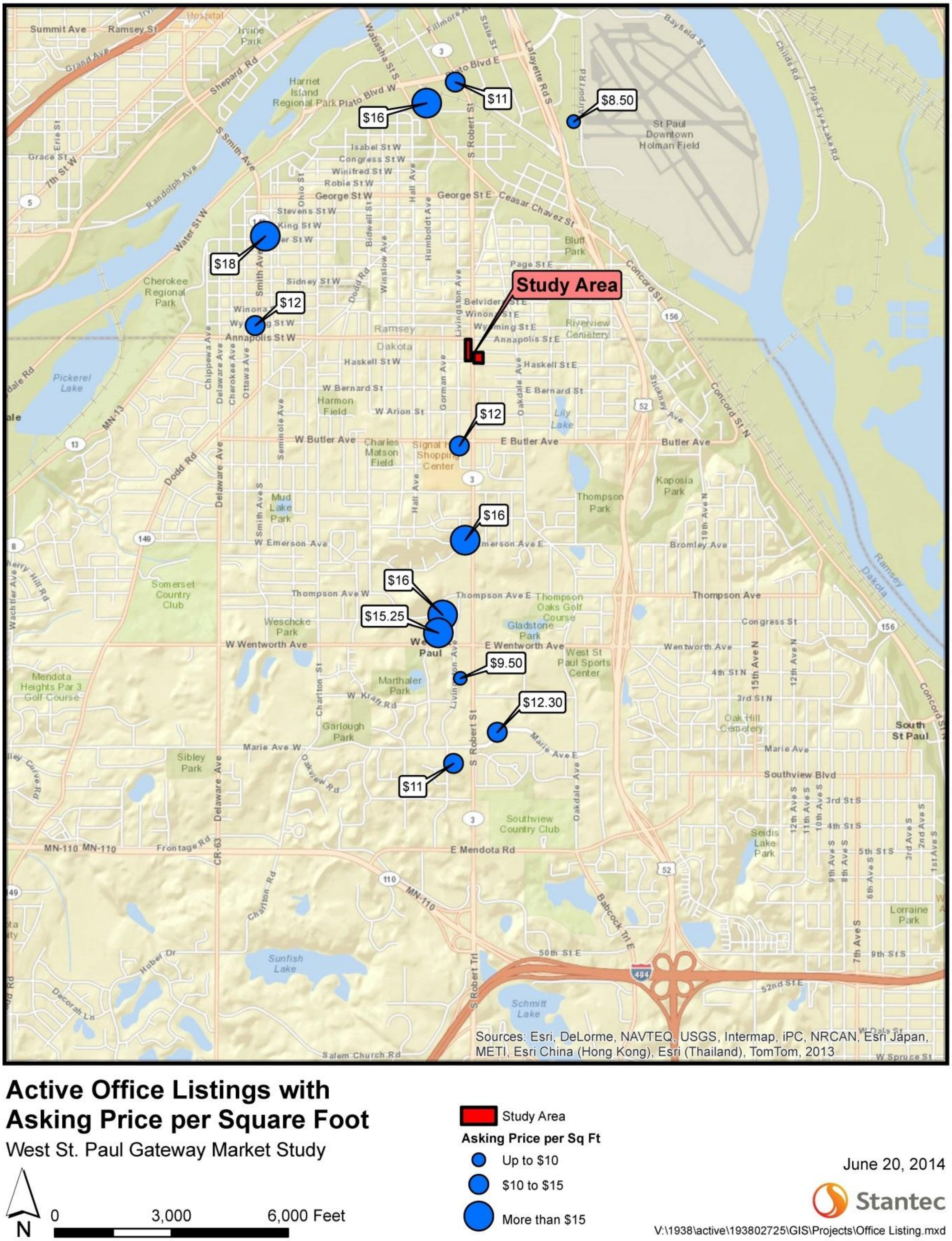

$11
$16
$8.50
St Paul Downtown Holman Field
$18
Study Area
$12
$12
$16
$16
$15.25
$9.50
$12.30
$11
Sources: Esri, DeLorme, NAVTEQ, USGS, Intermap, iPC, NRCAN, Esri Japan, METI, Esri China (Hong Kong), Esri (Thailand), TomTom, 2013
Active Office Listings with Asking Price per Square Foot
West St. Paul Gateway Market Study
N
0
3,000
6,000 Feet
Study Area
Asking Price per Sq Ft
Up to $10
$10 to $15
More than $15
June 20, 2014
Stantec
V:\1938\active\193802725\GIS\Projects\Office Listing.mxd

The following key findings from an analysis of the competitive office situation near the study area:

- Office properties along the South Robert Street corridor total approximately 660,000 square feet of leasable space. A significant proportion of this total (240,000 square feet) is the fully occupied Dakota County's northern service center. Removing this large property from the analysis would lower the total space to 420,000 square feet in the corridor and raise the vacancy rate to nearly 14%.
- The average sized office building in the Robert Street corridor is just over 8,000 square feet. Therefore, most of the buildings in the corridor are small and do not have the features and amenities that larger office buildings provide.
- Users of office space in the Robert Street corridor tend to mostly consist of smaller businesses that serve a local household base, such as health care professionals (e.g., dentists, chiropractors, physical therapists, etc.), lawyers, real estate agents, insurance agents, and tax preparers. Many of these types of businesses benefit from being adjacent to retail districts as their customer base values the convenience and proximity of these locations. This helps explain how the Robert Street corridor functions as both a retail corridor and an office district made up of smaller office properties.
- Livingston Avenue, which runs parallel to Robert Street one block to the west, is where many of the office properties in the South Robert corridor tend to concentrate.
- Active office listings in the South Robert corridor range from $9.50 per square foot to $16 per square foot. Given the quasi-retail function of many of the office spaces in the corridor, the range in pricing generally has to do with visibility, though some of the multitenant properties provide some types of services (e.g., secure building, common area amenities) that can influence pricing as well.
- The Robert Street corridor is part of a larger office district that essentially includes South St. Paul, and Inver Grove Heights. This is an area in which there is no dominant sub-district in which bigger, more prominent Class A office buildings exist. Instead it is a collection of sub-districts that share many of the same characteristics as the Robert Street corridor in which office users are primarily serving a local household base.
- In contrast to the functioning and market position of the office districts in northeastern Dakota County are the downtown St. Paul and the northwestern Dakota County office markets, which are much larger in size, have more prominent buildings, and exert influence on the study area.
- Downtown St. Paul, with over 14 million square feet of office space, is one of the largest markets of the metro area and includes corporate headquarters of some of region's biggest companies as well as significant office space devoted to the state government. The average building size in the downtown is over 150,000 square feet, and there is nearly 4.3 million square feet of space in Class A buildings.

- Despite its prominence as a market, downtown St. Paul has struggled to fill vacant space in recent years. Although there are a number of prominent Class A buildings, the market also has many larger, but older buildings that no longer meet many of the needs and demands of larger office users. Even though numerous older buildings have converted to residential space or other uses, the market continues to be hampered by significant vacancy.
- Centered near the intersection of the I-494 and I-35E, Eagan and Mendota Heights have an office market that has come to rival downtown St. Paul in terms of size and function. Although the market lacks the very large Class A buildings found in the downtown, it has a number of Class A buildings as well and the total size of the market is 9.5 million square feet. This market is heavily influenced by its proximity to the Minneapolis-St. Paul International Airport and the I-494 corridor in Bloomington. Therefore, it contains a number of national and regional headquarters and companies that complement those firms.
- The vacancy rate in northwestern Dakota County is under 6% and active listings at prominent locations are as high as $30 per square foot. This indicates strong market fundamentals that would likely support additional development.

Office-Based Employment Trends

Overall Employment Growth

Table 20 shows employment growth from 1970 to 2020 for West St. Paul, northern Dakota County, and the Twin Cities Metro Area. Although employment growth in West St. Paul plateaued during the 1980s, in part because it became fully developed, northern Dakota County as a whole has continued to experience strong employment, even during the 2000s when the recession of the latter half of the decade resulted in widespread employment losses.

Despite steady declines in employment over recent decades, the Metropolitan Council forecasts that West St. Paul will again experience strong employment growth and join with the remainder of northern Dakota County as an engine of growth during the latter half of the 2010s.

Table 20: Employment Growth Trends 1970-2020

	1970	1980	1990	2000	2010	2020
West St. Paul	4,200	7,757	9,264	8,905	7,471	9,040
Northern Dakota County	20,330	30,284	52,357	76,069	86,546	103,400
7-County Metro Area	779,000	1,040,000	1,272,773	1,606,994	1,543,872	1,819,000
Share of Metro Employment						
West St. Paul	0.5%	0.7%	0.7%	0.6%	0.5%	0.5%
Northern Dakota County	2.6%	2.9%	4.1%	4.7%	5.6%	5.7%
7-County Metro Area	100%	100%	100%	100%	100%	100%
Numeric Change in Employment		*1970s*	*1980s*	*1990s*	*2000s*	*2010s*
West St. Paul	--	3,557	1,507	-359	-1,434	1,569
Northern Dakota County	--	9,954	22,073	23,712	10,477	16,854
7-County Metro Area	--	261,000	232,773	334,221	-63,122	275,128
Percentage Change in Employment		*1970s*	*1980s*	*1990s*	*2000s*	*2010s*
West St. Paul	--	84.7%	19.4%	-3.9%	-16.1%	21.0%
Northern Dakota County	--	49.0%	72.9%	45.3%	13.8%	19.5%
7-County Metro Area	--	33.5%	22.4%	26.3%	-3.9%	17.8%
Share of Metro Employment Growth		*1970s*	*1980s*	*1990s*	*2000s*	*2010s*
West St. Paul	--	1.4%	0.6%	-0.1%	n/a	0.6%
Northern Dakota County	--	3.8%	9.5%	7.1%	n/a	6.1%

Sources: Metropolitan Council; MN Department of Employment and Economic Development

Office Job Projections

According to the Minnesota Department of Employment and Economic Development, the Twin Cities Metro Area is projected to have a net increase of nearly 72,000 office jobs between 2010 and 2020 (Table 21 and Figure 45). Clearly, 72,000 new office workers in the next decade will increase demand for office space in northern Dakota County. However, several trends will temper this demand.

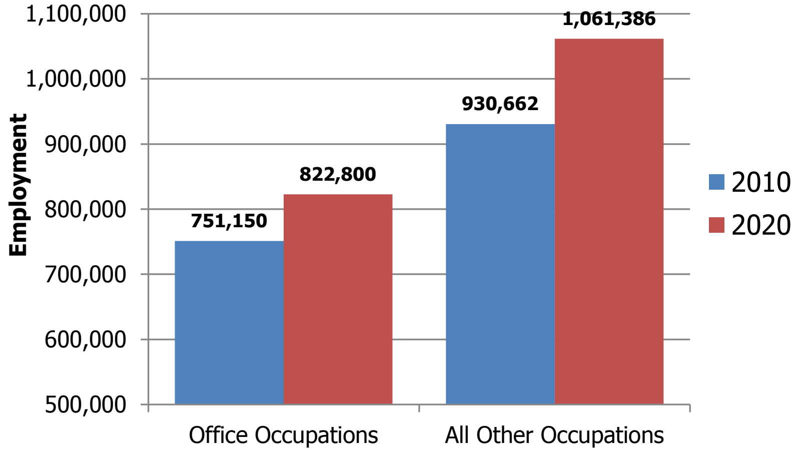
First, the average space per office worker has been declining in recent years due to greater acceptance of telecommuting, fiscal response to the recent recession, less need for document storage, and greater interest in more collaborative work settings and shared workspaces. Historically, 250 square feet per office worker was the standard used by many architects when designing office space. This average has decreased to almost 150 square feet of space per worker and may decrease even more if current trends persist. Second, with declining space needs, our current supply of office buildings will likely be able to accommodate a larger work force as spaces are reconfigured to meet current trends. Third, not all office workers will work in a traditional office building. There are many examples of businesses that choose to locate typical office jobs in flex industrial space or even marginal retail space.

Table 21: Projected Growth in Metro Area Jobs by Occupation 2010-2020

Occupation Category	**2010**	**2020**	**# Change**	**% Change**
Management Occupations	112,005	120,025	8,020	7.2%
Business and Financial Operations Occupations	120,470	136,735	16,265	13.5%
Computer and Mathematical Occupations	67,650	76,601	8,951	13.2%
Architecture and Engineering Occupations	34,833	37,522	2,689	7.7%
Life, Physical, and Social Science Occupations	15,288	17,522	2,234	14.6%
Community and Social Services Occupations	32,910	38,731	5,821	17.7%
Legal Occupations	15,315	16,371	1,056	6.9%
Education, Training, and Library Occupations	89,660	98,819	9,159	10.2%
Office and Administrative Support Occupations	263,019	280,474	17,455	6.6%
Office Occupations	751,150	822,800	71,650	9.5%
Installation, Maintenance, and Repair Occupations	47,512	53,029	5,517	11.6%
Production Occupations	109,657	115,147	5,490	5.0%
Transportation and Material Moving Occupations	93,010	103,785	10,775	11.6%
Arts, Design, Entertainment, Sports, and Media Occ	35,214	38,167	2,953	8.4%
Healthcare Practitioners and Technical Occupations	85,778	106,751	20,973	24.5%
Healthcare Support Occupations	46,846	60,914	14,068	30.0%
Protective Service Occupations	28,886	30,423	1,537	5.3%
Food Preparation and Serving Related Occupations	122,237	132,094	9,857	8.1%
Building & Grounds Cleaning & Maintenance Occup.	55,216	60,649	5,433	9.8%
Personal Care and Service Occupations	75,342	99,030	23,688	31.4%
Sales and Related Occupations	176,116	193,231	17,115	9.7%
Farming, Fishing, and Forestry Occupations	5,353	5,926	573	10.7%
Construction and Extraction Occupations	49,495	62,240	12,745	25.8%
Non-Office Occupations	930,662	1,061,386	130,724	14.0%
Total, All Occupations	**1,681,812**	**1,884,186**	**202,374**	**12.0%**

Source: MN Department of Employment and Economic Development

Figure 45: Projected Growth in Metro Area Office- and Non-Office Jobs



Source: MN Department of Employment and Economic Development

6.3 PENDING OFFICE DEVELOPMENTS

According to discussions with city staff from communities in surrounding West St. Paul, there are only two pending office developments. As mentioned previously, the Neighborhood Development Alliance (NDA) has proposed a flexible commercial space that could include office uses near the intersection of South Robert Street and Cesar Chavez Boulevard. This would be a small office development in a setting similar to the study area. However, this project is very tentative and is unclear whether it will move forward.

The other pending office project is under construction near the border to Inver Grove Heights and Rosemount. Flint Hills Resources is building a 140,000 square foot building that will be completed in 2015. This building would not directly impact any office potential office development in the study area because it is over 10 miles from the study area and will in all likelihood be used as a single-tenant property by Flint Hills Resources.

6.4 OFFICE DEMAND CALCULATIONS

Table 22 displays the methodology used to calculate potential demand for office space in the study area between 2014 and 2020. Based on job growth forecasts prepared by the Metropolitan Council and the Minnesota Department of Employment and Economic Development, it is anticipated that the number of new office jobs in West St. Paul will increase by just over 400 through the end of the decade.

Office jobs are converted into office space based on the average amount of space needed per office worker. This amount had been historically about 250 square feet per worker. However, increased telecommuting, fiscal restraint, and changes in workplace design have pushed this figure down to 150 square feet per worker. At this amount, West St. Paul will likely require about 62,000 square feet of traditional office space to accommodate the projected growth. However, there is some excess office space currently in the market that could absorb a portion of this demand. Assuming market equilibrium of about 6% vacancy, this means that there is about 20,000 square feet of excess office space in the marketplace that would need to be absorbed before any appreciable demand is generated for new speculative office space.

Table 22: Study Area Office Demand Calculation

		2014-2020
Forecasted West St. Paul Job Growth[1]		1,175
(times) Proportion of Office Jobs[2]	x	35%
West St. Paul Office Job Growth	=	411
(times) Average Office Space per Worker (in sq ft)[3]	x	150
(equals) Office Space Needed for New Workers	=	61,688
(less) Excess Office Space in West St. Paul[4]	-	20,000
(equals) Pent up Demand for New Office Space	=	41,688
(times) Study Area Capture Rate[5]	x	15%
(equals) Supportable new office space in the study area	**=**	**6,253**

[1] Metropolitan Council

[2] The Minnesota Department of Employment and Economic Development project that 35% of future job growth will be office-based jobs.

[3] Historically, office space per worker has averaged 250 sq ft per worker. Newer buildings, however, are being designed for 150 sq ft per worker.

[4] There currently is about 58,000 sq ft of vacant office space in West St. Paul. Although some of this space is not highly desirable, there clearly is a significant amount of excess office space currently in the market. Therefore, we estimate that at least 20,000 sq ft of existing vacant space needs to be absorbed or removed from the market before a significant amount of new office construction can be supported from speculative demand.

[5] The overwhelming majority of office space in West St. Paul and along the Robert Street corridor is located in the southern third of the corridor because of the easier access to the interstate and the influence of large retailers who contribute to the area's prominence. Therefore, we estimate that any future office development will likely be oriented to this part of the corridor. However, some demand will be focused on the northern sections of the corridor as well because many of the existing commercial spaces in that area are older and do not meet the needs of many users.

Source: Stantec

Subtracting the 20,000 square feet of excess existing space from the 62,000 square feet demanded from projected growth yields a net demand of about 42,000 square feet. Not all of this demand, however, can be captured in one location since it takes into consideration all types of office jobs created by all types of businesses, many of which have different needs and demands for their office space. Nonetheless, it demonstrates that once job growth does improve, especially toward the latter half of the decade, there appears to be the likelihood that study area could tap into growing demand for office space and support about 6,300 square feet, which is 15% of excess demand in West St. Paul.

7.0 CONCLUSIONS AND RECOMMENDATIONS

Previous sections of this report analyzed site and market data relating to the potential of supporting a mixture of residential, retail, and office uses within the study area. This section synthesizes those findings into relevant conclusions for each market segment analyzed and provides recommendations for next steps in the redevelopment process.

7.1 MULTIFAMILY MARKET CONCLUSIONS

The study area is well positioned to capture certain segments of the multifamily housing market both in the short-term and long-term. The following are key conclusions pertaining to the multifamily housing market:

- The study area has several advantages that make it a strong location for multifamily housing. First, it is centrally located within the metropolitan region with relatively easy access to the highway network. Second, it has convenient access to high-frequency transit (with the potential for enhanced transit service). Third, it is in close proximity to a major shopping district further south along Robert Street. Finally, it is in close proximity to downtown St. Paul with its concentration of over 40,000 jobs.
- Despite the advantages of the study area's location, some prospective residents, especially those with young children, may consider Robert Street a safety hazard due its volume of traffic. However, the pending reconstruction of Robert Street will create a safer pedestrian environment with improved lighting and crossing zones at intersections. Moreover, there are many examples of successful and highly desirable residential properties along similar roadways throughout the metro area.
- Demographic trends are contributing to increased demand for multifamily housing, especially rental housing. Traditional target markets for multifamily housing (households under age 35 and over age 65) are growing rapidly. In particular, the Baby Boom generation which is beginning to reach early retirement years will dramatically increase the number of households looking to downsize from a single-family home and consider more maintenance-free living options.
- After years of experiencing nominal growth or even decline due to minimal new development and limited household turnover, much of the housing market area is expected to add a significant number of new households, which will fuel demand for more housing options. Some of this forecasted growth is also the result of emerging trends of increased demand for urban living driven by a desire to live in amenity-rich neighborhoods that are walkable and have good transit access.
- Dampening the demographic demand for multifamily housing in the market area are the overall lower household incomes, especially among the neighborhoods most proximate to the study area. As a result, it may be difficult to achieve the level of rent or pricing needed

to support new construction unless there is a funding source than can help cover any gap between pricing and costs.

- The rental market is currently very strong. Vacancy rates in the housing market area are near historic lows (under 3%) and rents have been steadily rising in response to constrained supply. Low vacancy and rising rents are indicators of pent-up demand in the market and often signal strong opportunity for new development.
- Although some submarkets within the metro area are being watched closely for signs of overbuilding in the rental market (e.g., downtown Minneapolis), new construction is only beginning to occur in other parts of the metro area and all indications suggest that the market outside of downtown Minneapolis and a few select neighborhoods will continue to remain strong into the foreseeable future.
- Although downtown St. Paul and the West 7th neighborhood have experienced new apartment construction, other portions of the market area have not experienced any significant new market rate apartment construction in over 25 years (with the exception of the 35-unit Emerson Hill property, which was originally marketed as a condominium only to be converted to an apartment after financial restructuring). This suggests that many of the directly competitive properties are likely dated and lack many of the features and amenities desired by today's renters.
- Ownership forms of multifamily housing (i.e., condominiums and townhomes) are beginning to finally rebound after a severe bust during the recent recession dropped values by as much 40% in the market area. Although demand fueled by Baby Boomers and years of little to no new development will eventually result in enough demand to support new construction in the market area, the market still needs to recover more before that will occur.
- Calculated demand for multifamily housing in the study area through 2020 suggests that up to 70 units of market rate rental, 200 units of affordable rental, and 50 units of condominiums/townhomes could be supported.

Recommendations

Based on the market findings presented above, we believe there is demand to support new rental housing in the study area. According to demand calculations that take into consideration demographic trends and the supply of pending developments, we anticipate that the study area could support between 50 and 70 units of market rate housing with the potential for more units provided rents could be held to rates slightly below what is found at comparable newer properties.

Most of the new market rate properties are located about two miles from the study area in downtown St. Paul or along West 7th with the closest being the West Side Flats immediately across the Mississippi River from the downtown. Therefore, although the study area has many strong attributes, it is an untested market and neighborhoods immediately surrounding the study area do not have the same level of cache as some of the other profiled properties, particularly in the downtown. As a result, we believe pricing of any new market rate project will be very important.

Victoria Park along West 7th is achieving rents well above $1.50 per square foot. However, the proximity of the Mississippi River and I-35E is helping to support those rents. Perhaps a more analogous comparison is Lyndale Plaza located just north of Lyndale Avenue and 66th Street in Richfield. This property opened in 2013 and has a total of 94 units (19 of which are income-restricted). Market rate rents are around $1.35 per square foot and range from $1,095 for a one-bedroom unit to $1,600 for a two-bedroom unit. Income-restricted units are available to households with incomes at or below 50% of the area median income (AMI), which translates to maximum gross rents of $787 for a one-bedroom unit and $945 for a two-bedroom unit. The best local comparison is the 8-year old Emerson Hill apartments located just south of the study area with market rate rents that range from $950 for a one-bedroom unit to $1,250 for a two-bedroom unit, which is about $1.20 per square foot. Therefore, using these two properties as comparisons, we believe achievable market rate rents in the Study Area would be between $1.25 and $1.30 per square foot, which is well above most of the rents found at other top properties in northeastern Dakota County.

Although there appears to be demand to support market rates rents as high as $1.30 per square foot, this assumes that the property would have quality finishes and amenities on par or exceeding other top properties in Dakota County. Higher quality finishing means higher construction costs. Therefore, a more detailed financial analysis would be necessary to determine whether a project could be developed without significant public assistance. The amenity of most concern would be covered parking, which is necessary for almost all new rental housing built today. Given the study area's tight confines and urban location, it would be next to impossible from a market perspective to not include covered parking as part of a housing component. However, structured parking is very expensive and in all likelihood would require some significant public assistance.

In terms of unit mix (i.e., the ratio of large unit types to small unit types), the market area has a high concentration of two-bedroom units; nearly 70% of the units profiled in northeastern Dakota County are two-bedroom units. This suggests that the market may have a gap in the supply of smaller unit types. Moreover, several findings suggest greater demand for smaller unit types. For example, recent developments in St. Paul have a more proportional unit mix with 53% being small unit types (studios and one-bedroom units) versus 47% being larger unit types (two-bedroom units or larger). Also, the number of single-person households has been increasing in recent years, especially within the market area. Finally, there is a trend among renters to forgo more private living space as long as the development or the surrounding neighborhood has significant amenities in the form of public spaces to gather or recreate, numerous dining options, and frequent transit.

Based on these findings, it is recommended that any market rate rental component in the study area have a unit mix of roughly 5% studio units, 45% one-bedroom units, 40% two-bedroom units, and 10% three-bedroom units. A wider range of options will appeal to the widest market possible, which can contribute to faster absorption and mitigate against normal market vagaries. In some instances, new apartment developments are skewing heavily toward one-bedroom unit styles due to their location in expensive neighborhoods and a target market mostly consisting of young, single professionals. This would not be recommended at this location because the market will contain two important market segments that will desire larger unit types: 1) older, retired households that want to downsize from a single-family home yet desire an extra room for guests or personal belongings; and 2) persons with lower incomes who will want to live in roommate situations for affordability reasons.

A new rental property with modern features and amenities will provide needed choice in the market area, especially in northern Dakota County where many of the market's top properties are more than 20 years old and, despite the potential for upgrades, lack certain features and amenities desired by today's lifestyle renter. Modern layouts with open floor plans, large windows, kitchen islands, well-appointed common areas, and dedicated dog runs are examples of features being designed into new properties in order to attract renters. Although new supply can potentially have a negative impact on older established properties, it can also incentivize older properties to make necessary upgrades and investments needed to maintain viability.

It should be noted, though, that there is a substantial amount of pending apartment development throughout the twin cities metro area. To some degree, we believe the level of pending development in the market area still leaves room for additional development in the study area because most of the region's pending development is focused on downtown Minneapolis, northeast Minneapolis, and the Uptown neighborhood of Minneapolis. Nonetheless, pending development throughout the twin cities should be closely monitored as market saturation, even at the submarket level, will have implications for other submarkets, especially with respect to accessing financing.

With respect to the demand for affordable rental housing in the study area, our calculations reveal a very deep level of pent-up demand in the market area. Although affordable rental housing is typically in high demand, regardless of location, we believe that the study area is really well positioned for affordable types of housing given its transit advantages and access to retail and other services. The inclusion of an affordable rental component along with a market rate component could help bridge any potential financing gap in the development. There have been numerous local examples that have seamlessly blended these components into a single development.

There are strong indicators that the condominium and townhome market is beginning to revitalize, which is good news. However, pricing remains low enough that it is still too soon to justify a new project in the study area. Therefore, we would not recommend a condominium or townhome development as part of a first phase of the development. However, given the potential challenges of integrating other uses, namely retail, into the study area, reserving a later phase for an ownership product may make sense for when the market improves. Being able to integrate a condominium or townhome component would help broaden the market base and create for a more diverse district and help with absorption. Also, having an ownership component can potentially serve as a transition between single-family homes and more dense rental or commercial components. However, lower density townhome product will make the financial viability of the development more challenging since the market for new townhome product would likely start at $150,000, which may require buyer assistance given construction costs and also result in fewer units per acre. Therefore, a townhome option should be consider if other product types are clearly no longer marketable or the community only supports that form of development.

However, we would caution against making the majority of the residential development condominiums or townhomes. Given the transit advantages of the study area, it lends itself more as a premier location for rental housing than condominiums or townhomes. Furthermore, ownership forms of multifamily housing often respond more to specific locational amenities, such as views, access to open space, etc. Therefore, as master development of the study area proceeds and depending on the amount of amenity that can be introduced within the study area itself, this has the potential to unlock more market support for an ownership concept such as condominiums.

Pricing of any new ownership product in the study area should only slightly exceed the median sales price of the market area because most of the demand for ownership product will come from existing residents wanting to make a lateral move from a single-family home in order to downsize. Therefore, we believe achievable pricing would be between $140,000 and $180,000. However, given construction costs, this level of pricing is likely not able to support development without some level of gap financing.

7.2 RETAIL MARKET CONCLUSIONS

Although the study area has excellent visibility along South Robert Street, there are a number of significant site and market challenges that would need to be overcome in order to support a successful retail component. The following are key conclusions from the analysis:

- Many traditional brick-and-mortar retailers are discovering that they have to sell an experience as much as a good or service due to competition with the internet. Places that are at a human scale, such as the study area with its pedestrian and transit accessibility, have an inherent advantage over places that aren't at a human scale when it comes to selling an experience.
- Despite the underlying human scale of the study area and its environs, it currently lacks a place of interest. To some degree, recent nearby development contributes to a sense of place with multistory structures built to the street front at a pedestrian scale. However, there still lacks a critical mass to create such an environment and to do so will require substantial new construction. Older neighborhoods that leverage their inherent human scale often do so through the renovation or rehabilitation of older buildings with some sort of architectural charm or character, which is usually much less expensive than new construction.

Unfortunately, the study area lacks these types of properties and, therefore, any sense of place must be achieved through new construction.

- Another challenge to overcome with the location of the study area is the depth of the lot. West of Robert Street, the lot is only 140 feet deep, which makes it very difficult to accommodate necessary on-site parking. This becomes even more critical when one considers that the changes to the Robert Street roadway will likely necessitate having to accommodate on-site surface parking in some form or another for any significant concentration of commercial uses. Compounding the challenge is that one of the strengths of the location is a human scale in which pedestrian-orientation will need to be protected at least and augmented at best. However, under such conditions, parking cannot be a dominant use and needs to be artfully incorporated into the site without detracting from the pedestrian character. To do this, though, would require a whole host of creative solutions, such as sharing parking among users, structuring the parking to minimize its footprint, and clearly marking where parking is located and how to reach it. All of which add expense that typically can only be overcome with very high rents.
- The main concentration of retail that people generally associate with South Robert is well over a mile south of the study area and the development pattern in that part of the corridor is much more conducive to attracting shoppers who travel by car, which serves to widen its trade area, whereas the study area is more conducive to shoppers traveling by foot, bicycle, or transit, which generally constricts the trade area.
- Current and recent attempts to fill active retail space near the study area have been very challenging at best. The Emerson Hill Center, which is under construction one block south the study area, has been unable to find a qualified tenant after several years of marketing the property. As a result, initial attempts to attract traditional retailers have shifted to retail-service users or medical-service users, neither of which has yielded a tenant. Also adjacent to the study area is commercial space in the ground floor of the Dakotah Apartments. Brokers that have marketed that space also commented on the challenges of the local market, which include mostly independent, start-up businesses that cannot afford the rents and many times do not have the credit history needed for a standard lease.
- The proximity of large-scale retail further south along South Robert generally means that only small-scale retail that primarily serves local residents can be supported in the northern sections of South Robert.
- The northern portions of South Robert, where the study area is located, does not have an anchor or large-format retailer to help generate traffic levels that can support ancillary small scale retail, the likes of which would be in the study area. The most recent traffic counts along South Robert show that volumes are highest about a 1½ mile south of the study area but then drop by over 40% closer to the study area.
- Incomes in the retail Trade Area are nearly 30% below metro area incomes. This has a significant impact on the spending power of Trade Area households.

- According to demand calculations based on Trade Area households and workers, there is a substantial oversupply of existing retail space in the Trade Area. This is corroborated by the fact that new retail space near the study area has been unable to be filled despite active marketing. Some of the existing supply of retail space will undoubtedly convert to other uses once Robert Street is reconstructed because of the loss of on-street parking and more limited access. Therefore, potential will exist to capture demand created by displaced businesses. However, the potential is limited because much of the marginal retail space that currently exists is occupied by businesses that can only survive in very low rent spaces. Nevertheless, the reconstruction of South Robert Street will result in shifting market dynamics along the Corridor that will present opportunity for new development in the study area.

Recommendations

For the reasons noted above, identifying adequate demand for new retail space in the study area will mean addressing significant market barriers. For instance, in order for the study area to function as an important retail node, it will need a major traffic generator, such as a grocery store or other sizable retailer. This would mean designing a substantial parking component that would accommodate this retailer. However, this would also likely mean abandoning the form and style of development that gives the study area any market appeal in the first place, namely its pedestrian-scale.

If the pedestrian scale of the study were to be preserved and leveraged, then investments in place making would need to be very significant and on a scale that would make the study area a destination that would extend its trade area well beyond its current size. This would mean incorporating a lot of space and design into the public realm that would not only be along the edges of each site but also throughout each site as well. In some ways the reconstruction of Robert Street could contribute to this level of development if the streetscape is of a sufficient design. However, a street reconstruction by itself will not be enough investment to spur this type of development.

Examples of amenities that have been included in other smaller-scale retail districts that enhance value and help attract visitors include public art, monument signage, plazas with a prominent feature, innovative stormwater treatments, benches, tables, parklets, attractive lighting, greenery (trees, flowers, shrubs, etc.), fountains, etc. Below are visual examples of possible amenity features:

Figure 46: Examples of Public Realm Amenities in Retail Districts

Innovative Tree Grate

Non-Traditional Benches

Interactive Water Feature

Garden Boxes

Parklet

Stormwater treatment that doubles as a water feature

Small open space that provides a visual focus and serve multiple purposes

Small open space integrated into a commercial environment

Public water fountain that doubles as public art

Unique benches and sitting areas that draw visitors

Small spaces that are activated and integrated into the commercial environment

Restaurant patio that is incorporated into the public realm

Murals as public art

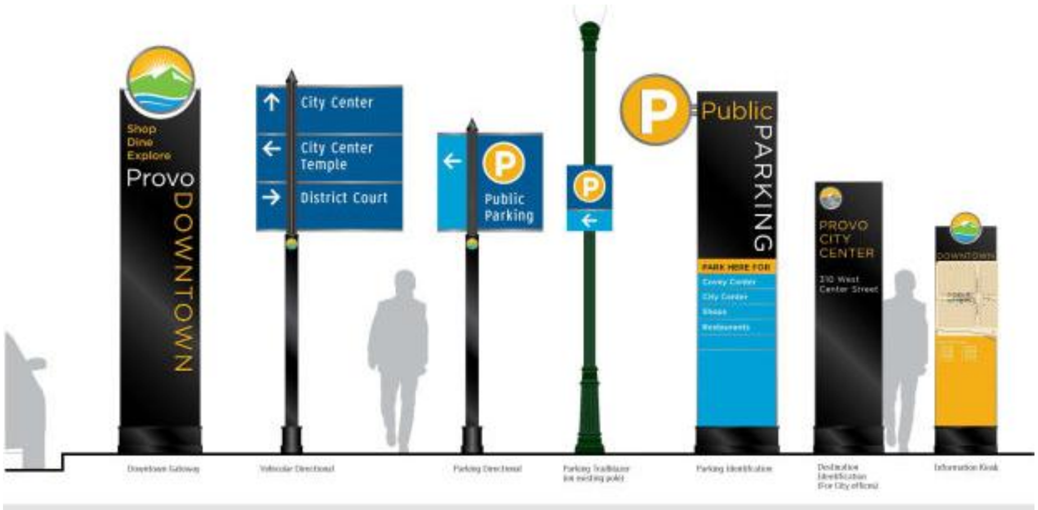
Entrance monuments that focus attention and help create identity for a commercial area

Features incorporated into the public realm that draw visitors attention and provide visual interest

Features that are visually interesting but also define the transition between different spaces and uses

Also, as noted previously in the report, parking that would complement and not counteract a pedestrian-oriented development would have to be integrated into the site in a seamless manner. Important considerations for dealing with parking in an urban environment where space is at a premium include the following:

- **Signage** directing visitors to public parking areas will be essential because access to the study area will require turning off of South Robert Street at either Annapolis Street or Haskell Street.



Examples of Public Parking Wayfinding Signage

- **Stormwater treatment** integrated into parking areas through use of pervious pavers, rain gardens, or tree islands can break up the monotony of traditional parking lots, help direct visitors to their destination, and improve pedestrian safety.

Figure 47: Examples of Stormwater Treatment Integrated into Parking Lots

Tree islands that slow speeds, provide shade, and double as rain gardens

Rain gardens that help define pedestrian walkways through a parking lot

Rain barrels that capture runoff and provide water for plants and vegetation in buffer zones around parking

- **Shared parking strategies** will be critical because the study area is small enough that too much area devoted to parking will overwhelm any development. Mixing of uses can provide opportunities for users to share common parking areas and thus limit the need for parking. For example, restaurants have peak parking needs during evening hours, whereas offices have peak needs during daytime hours and housing has peak needs overnight. Although a common structured parking facility adjacent or incorporated into any housing component can help address shared parking goals, space identified for retail or office users would need to be clearly marked, easy to access, and be free. Furthermore, due to the resistance of many shoppers to use parking structures, it may be necessary to accommodate a certain amount of surface parking with some of the elements noted above.

A primary challenge to enhancing the pedestrian environment with amenities and/or the sensitive treatment of parking is that they are often very costly, which requires either high rents on the part of tenants or significant public support or both. Adding to the challenge is that the surrounding neighborhoods, which will be a foundation for any retail demand in the study area, have lower incomes. This means that until development in the study area can appreciably attract visitors from beyond the local trade area, rents will be modest and likely not high enough to support most types of new construction, much less any significant amount of amenity. The amount of public support needed to close any gap in development will require, at minimum, a basic pro-forma, which is beyond the scope of this analysis.

Provided amenity can be introduced into the study area, we believe up to 12,000 square feet of commercial space could be supported because of a larger trade area and the potential to capture demand currently being met by retailers who will likely need to relocate once South Robert Street is reconstructed. With that being said, it should be anticipated that initial interest in the location will still be dominated by independent retailers who will likely require some form of assistance or rent reduction in order to occupy any space. For more established retailers who could afford rents in new construction, their interest will come once the development is fully realized and the market has been tested.

If significant amenity cannot be introduced into the study area, then we believe there is little demand for additional retail given the poor performance of newer retail space near the study area. Under this scenario, we would recommend focusing development in the study area almost entirely on housing. If it is important to include some type of retail in the study area because of a goal to have greater activity along South Robert Street and to provide more retail opportunities for local residents, we would recommend keeping the amount of space modest (no more than 3,000 to 4,000 square feet).

Any retail uses should be oriented to an intersection, preferably one that is signalized to help capture more motorist attention. We would recommend the southwest corner of Annapolis and Robert because of the presence of a traffic signal, the slightly higher traffic counts along Annapolis, and the existing retail space at the intersection. We would also recommend that it be designed to easily accommodate a restaurant. Food is becoming increasingly important because of its social and experiential elements. Furthermore, there are very few non-fast food restaurants further south along Robert Street and there is a measurable gap of sit-down restaurants in the trade area. Moreover, if a restaurant component is incorporated into the development, we would highly recommend making sure that patio or sidewalk seating is not only allowed but encouraged. This will help attract restaurateurs and diners.

We would strongly caution against developing retail on both sides of South Robert Street. The east side of South Robert Street does not have a signalized intersection at Haskell Street which makes pedestrian crossings more hazardous. Furthermore, without a signal at Haskell Street, shoppers will have a difficult time making left turns from or onto South Robert Street. Therefore, from an access standpoint, the parcel on the east side of Robert Street would be more appropriate for housing.

Unfortunately, the challenge for the parcels on the west side of Robert Street is that they are currently only 140 feet deep, which would make the accommodation of parking for difficult. If additional parcels can be acquired on the west side of Robert Street, thus allowing for greater depth, this would open up more possibilities for development. Under this scenario, we would recommend starting on the west side first since the amenity needed to support the retail component can be complemented by a housing use as well, especially if there a parking structure is incorporated into the development. Furthermore, with a west side development occurring first, this would help frame the Annapolis Street intersection with the Dakotah building and help create a more visually inspiring environment.

7.3 OFFICE MARKET CONCLUSIONS

Challenges in the broader office market will make it difficult to support any significant amount of office space in the study area. The following are key findings from the office analysis:

- Office space needs among many employers are changing. Given technology changes, post-recession cost cutting, and shifting work styles, employers are decreasing the amount of space per employee. This is decreasing the overall demand for office space.
- The office market along Robert Street and in northeastern Dakota County is dominated by small office users who have businesses that cater primarily to local markets. These include mostly professional service and medical firms, such as lawyers, accountants, financial planners, real estate agents, insurance agents, dentists, chiropractors, opticians, physical therapists, etc. These businesses often seek out quasi-retail locations because their clients benefit from the convenience and accessibility of these types of locations.
- The vast majority of office space along South Robert is concentrated in the southern end of the corridor near the concentration of retail.
- Office vacancy in northeastern Dakota County has been climbing slightly in recent years and the rents have been declining. Therefore, the market fundamentals would not suggest that the market is ready to support additional office development.
- The downtown St. Paul office market remains very soft, and given its size this has impacts on the study area. First, it means that many properties in the downtown are providing significant concessions, which pulls businesses out of Class C and B space into Class A, thus creating a competitive hole in the market that would compete with any office space in the study area. If conditions were reversed, the study area could potentially become a viable "back-office" of the downtown market. However, there is far too much vacant inventory in the downtown for this dynamic to occur.
- Based on calculated demand for office space in West St. Paul, it is estimated that the study area could capture up to 6,000 square feet of space through 2020.

Recommendations

Given the amount of calculated office demand, we recommend planning for a small office component to complement other uses in the study area. However, if the development is phased, we would recommend waiting until a later phase. Most office users looking for location along or near Robert Street will likely be small businesses with a customer base that is local and quasi-retail in nature. Therefore, we think that existing vacant retail space in the Emerson Hill Center may very well absorb some of this office demand.

7.4 OTHER CONSIDERATIONS

It was mentioned previously in this report that the existing high-frequency transit service may be enhanced to a bus rapid transit (BRT) or streetcar level of service. This raises the question of how much impact such an improvement in service may affect the development of the study area.

As part of the on-going process to evaluate the Robert Street corridor for improved transit service, the Dakota County Regional Rail Authority commissioned a recent study to evaluate the impact of BRT and streetcar service on development throughout the corridor. The report concluded that there will be an impact but not to the point of being able to support development on the scale of what is considered "catalytic". Furthermore, streetcar service was generally considered to have more impact than BRT because of its perceived permanence and cache. In terms of what types of uses would be most impacted, multifamily housing would experience the largest impact whereas retail and office would be nominal.

SOUTH ROBERT STREET GATEWAY MARKET STUDY

Conclusions and Recommendations
February 5, 2015