

Market Conditions Analysis and Recommendations for Downtown Mound, Minnesota

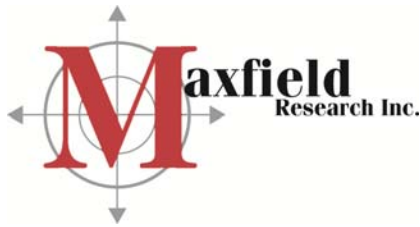


Prepared for:

City of Mound
Mound, Minnesota

June 2013





June 9, 2013

Ms. Kandis Hanson
City Administrator
City of Mound
5341 Maywood Road
Mound, Minnesota 55364

Dear Ms. Hanson:

Attached is the study *Market Conditions Analysis and Recommendations for Downtown Mound, Minnesota*. The study updates market conditions for retail, office, multifamily residential and lodging uses for the Downtown including the Mound Harbor District.

Based on the analysis, demand is identified for market rate multifamily uses, in addition to a modest amount of demand for retail and office space. We recommend that Mound defer the development of a hotel and continue to monitor market conditions to determine if development has reached a level where a lodging facility could be supported. Detailed recommendations can be found in the report.

We have enjoyed performing this study for you and are available should you have any questions or need additional information.

Sincerely,

MAXFIELD RESEARCH INC.

A handwritten signature in black ink that reads 'Mary C. Bujold'. The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Mary C. Bujold
President

Attachment

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Purpose and Scope of Study

Maxfield Research Inc. was engaged by the City of Mound to complete an update of current market conditions for various real estate sectors and to reassess the development potential for these uses in Mound with a focus on the Downtown area including the Lost Lake property and the Downtown Business District. The Downtown Business District is centered at the intersection of Commerce Boulevard and Highway 15. The research includes an analysis of the existing supply of and market conditions for retail, office, lodging and multifamily housing in the area. Growth trends and demographic characteristics and the potential impact of these trends on Downtown's development potential are presented.

Based on growth trends and current market conditions, demand potential is summarized for additional retail, office, multifamily housing (owned and rented) and hotel rooms from 2010 to 2020 in the Mound Trade Area. In addition, recommendations are presented to strengthen Mound's ability to attract new business and residents to its community now and in the future. These recommendations are intended to support Mound's business and economic development initiatives as the community continues to grow.

Downtown Overview

- Mound is a community of about 9,210 people (2012 estimate from the Metropolitan Council) located on the western edge of the Twin Cities Metro Area. The 2010 Census showed a population for Mound of 9,052. The most recent estimate reflects an increase of 158 people or 1.7% over the past two years. In terms of its size, Mound's total population exceeds the combined populations of Wayzata, Spring Park, Tonka Bay and Excelsior (9,188 combined vs. 9,210). As of 2013, we estimate Mound's population at approximately 9,230 people.
- Historically, Mound and several cities that border Lake Minnetonka were originally free-standing communities. As the Twin Cities Metro Area has expanded, development has occurred in all of the areas further west of Mound including Laketown Township, Minnetrista, St. Bonifacius, Independence, Maple Plain and Watertown. Mound was one of the first communities to implement municipal sewer and water back in the 1940s. Mound has more lakeshore on Lake Minnetonka than any of the 15 cities that touch the Lake.
- Mound is essentially a fully-developed community. While some parcels have been made available for new development, most of Mound has been developed for a number of years. Growth in households (occupied housing units) in Mound can essentially only be generated through redevelopment of existing property, in-fill on vacant lots and increased density (more units per acre).

- Downtown Mound is centered at the intersection of Highways 15 and 110. Access to the Downtown is primarily from these highways. An extension of Interstate 394 to Maple Plain has resulted in reduced travel times between Mound and Downtown Minneapolis via Interstate 394. From Downtown Mound and traveling along County Road 110 and County Road 6, commuters can access the new interstate connection in about five minutes.
- Highway 15 connects communities on the north end of Lake Minnetonka to Interstate 394. However, improvements to Highways 7 and 12, both accessed from County Road 110 means that travelers can access Mound more quickly than traveling along Highway 15. However, Highway 15 continues to provide a scenic route to Mound around Lake Minnetonka. If time is not an issue, traveling along Highway 15 is picturesque. Mound boasts significant lakeshore but much of the lakeshore is hidden from public view by development around the Lake. The Lost Lake property in the Downtown District offers a direct public view of Lake Minnetonka and public boat docks. Boats may enter the area through the Lost Lake Channel to reach Downtown Mound. The Lost Lake property remains available for additional development that will take advantage of views of the Channel.
- Commute data demonstrate what most local people already know, that a majority of Mound residents commute to jobs outside of the City. There are however, a number of people that work out of their homes even if they maintain an office outside of the City.
- Interviews with stakeholders in Mound revealed the following strengths of the community:
 - 1) close proximity to Lake Minnetonka;
 - 2) small town environment with neighborhood retail goods available in town;
 - 3) most affordable housing around the Lake;
 - 4) highly rated public school system; and
 - 5) new development in the Downtown that presents an attractive image of the community.
- While the Downtown has its strengths, it also has some weaknesses. Its primary weakness is its location approximately five miles away from a major highway (i.e. Highway 12 and Highway 7), which causes people traveling along those highways to often bypass Mound.
- Although specialty retail located in other communities draws some customers away from Mound, local businesses in Mound are generally stable or thriving and attracting customers from Mound, Minnetrista, Watertown, Independence, Maple Plain, St. Bonifacius and Laketown Township. While Mound's image has historically languished in the

shadow of Wayzata and Excelsior, this is changing in the housing market and from increased access to the community along the Dakota Trail.

Demand Summary

Based on the demographic and market analysis, the following level of development is identified as supportable in Downtown Mound from 2010 to 2020. The table summarizes the demand for various uses in the Market Area, and the amount of each segment that could be captured by the Downtown during the decade. The following is a summary of key demographic and market findings and demand and recommendations for redevelopment in Downtown Mound for housing, retail, office and lodging. Detailed recommendations are found in the *Conclusions and Recommendations* at the end of each section.

DEMAND SUMMARY DOWNTOWN MOUND 2010 TO 2020		
Neighborhood Retail	15,500 to 19,000	additional sq. ft. through 2020
Specialty Retail	15,000	additional sq. ft. through 2020
Office	5,900 to 7,800	additional sq. ft. through 2020
Housing		
Market Rate For-Sale TH's/Condos	60 to 70	additional units through 2020
Affordable For-Sale TH's	16 to 18	additional units through 2020
Market Rate Apartments	80 to 90	additional units through 2020
Affordable Apartments	54 to 60	additional units through 2020
Senior Housing	60 to 70	additional units through 2020
Limited-Service Hotel		future development/ later in decade
Source: Maxfield Research, Inc.		

Housing

Key Demographic and Market Findings

- The Mound Housing Market Area encompasses the immediate area surrounding Mound and includes the communities of Minnetrista, St. Bonifacius, Orono, Spring Park, Shorewood and Tonka Bay. According to Metropolitan Council projections, this area is forecast to add roughly 653 households between 2010 and 2020. Since the supply of available land is limited in several of these communities and Minnetrista and Orono are largely zoned for low-density developments, in-fill on redevelopment sites will play a greater role this decade in supporting housing demand. The proportion of demand for multifamily housing versus single-family homes is expected to continue to rise as the population ages. These factors offer the community opportunities to capture some of this demand.

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- Currently, the rental market is exhibiting the strongest demand with vacancy rates that are the lowest seen in several years. For-sale market activity however, is increasing as buyers come to the market to capture greater affordability. Senior housing demand also remains strong in the Metro Area and in the Mound Market Area.

Demand Summary

- The following primary market segments have not changed significantly and these groups remain the primary targets for medium to high-density housing in the Downtown based on a review of demographic growth trends and current housing conditions. They are:
 - 1) Empty nesters and independent seniors currently living in the area or who wish to live in the area and are seeking multifamily housing (single-level living) as an alternative to single-family homes or a second home;
 - 2) Young to middle-aged singles and couples without children who work or will work in the west Metro Area and are seeking ownership opportunities in a downtown environment;
 - 3) Singles and couples without children who are or will become employed in the west Metro Area and are seeking rental housing.

Recommendations

- Demand is increasing for single-family homes in Mound and areas that can support single-family development would be very attractive. Areas more appropriate for medium density and high density housing, such as the Downtown, could support for-sale townhomes, condominiums, rental housing and independent senior housing.
 - 1) Townhomes/Condominiums – We recommend the development of 60 to 70 units of townhome or condominium style housing through 2020. At this time, buyers continue to exhibit a preference for townhome units and for single-level living. Primary buyer segments are generally empty-nesters and young seniors that prefer a lower maintenance alternative to their single-family home. These units could take advantage of scenic locations overlooking either Lost Lake or Langdon Lake. Although a higher proportion of buyers are usually older, these units can also be marketed to younger households.
 - 2) Market Rate Apartments – We recommend the development of 80 to 90 units of market rate rental housing through 2020 in a three- to four-story freestanding building. We recommend that a site in or near the Downtown be considered for this building where residents would have convenient access to all the downtown amenities including shopping, trail, parks etc. Market rate apartments could act as an anchor component to a larger redevelopment project. Currently, the

apartment market is strong and is expected to remain so for several years primarily due to current housing market factors and demographic trends.

- 3) Independent Senior Housing – We recommend 60 to 70 units of market rate independent senior housing with few or no services. Similar to market rate apartments, these units would however, be restricted to people age 55 or older. The target market for these types of properties is usually people age 70 or older that are healthy and living independently. These properties are often combined with a limited amount of retail or have been combined with the development of new and/or entirely renovated county libraries.
 - 4) Workforce Affordable Apartments – We recommend 54 to 60 units of workforce rental housing that would target households with incomes between 50% and 60% of the Area Median Household Income. These units would be affordable for moderate-income households generally earning between \$32,000 and \$40,000 per year depending on household size. These units should be located in close proximity to goods and services and public transit.
 - 5) Workforce Affordable Townhomes – We recommend 16 to 18 units of workforce rental townhomes that would again target households with incomes of between 50% and 60% of the Area Median Household Income with households generally earning between \$36,000 and \$49,000 annually depending on household size. Household sizes are usually slightly larger than those for apartments and typically target family households that desire additional privacy.
- Adding new housing should remain a high priority of the City as it proceeds with redevelopment. Our research finds that strong housing demand in the area will create the potential to develop the housing products described above. Also, the addition of housing in Downtown Mound will continue to support the commercial business base.

Retail

Key Demographic and Market Findings

- The Retail Market Area includes Mound, Minnetrista, Spring Park, St. Bonifacius, Independence, Maple Plain, Watertown and Watertown Township. The Market Area is expected to add 5,186 people from 2010 to 2020 (for a population of 42,692 in 2020). As growth occurs, the potential for additional retail will increase and Downtown Mound will have an opportunity to capture a portion of retail expenditures from new residents. It is expected that Downtown Mound will be able to also support new retail by drawing customers from Minnetrista, St. Bonifacius Maple Plain and Independence.

EXECUTIVE SUMMARY

- The current retail mix in Downtown Mound consists mostly of neighborhood stores (stores that offer goods and services purchased often – daily or weekly) that draw the majority of their customers from Mound. Mound Marketplace, at the intersection of Highways 15 and 110, has increased the draw of Mound’s retail to residents in St. Bonifacius, Minnetrista and other communities to the west. Most of the demand for retail in the Downtown is for daily goods and services (restaurants, drugstore, and groceries) that serve the local population base. Increased retail demand in the Market Area this decade will primarily be for additional neighborhood stores and some demand for specialty retail (goods and services for which there are few alternatives and customers make the greatest effort to purchase).
- Mound residents most likely purchase most of their shopping goods (goods that are purchased less often- such as furniture, appliances and electronics) at larger retail centers in Minnetonka and Eden Prairie. There is a trend for shopping goods to be located in larger retail centers that require a larger support population than is provided in Mound. Thus, residents in Mound are likely to continue to make these types of purchases at shopping centers or online.

Demand Summary

- Retail types that have the greatest potential in Downtown Mound are those occupying about 3,000 square feet or less. Examples of neighborhood store types that currently existing in the Downtown are sandwich shop, hair salon, nail salon, barber, among others. It is likely that new businesses to Mound will come from local independent retailers that are already operating one or more outlets in the Twin Cities region. These operators are familiar with the shopping patterns of local residents and are likely to better understand their draw than a national chain that has specific criteria to meet for a site.

Recommendations

- We recommend developing a list of target retailers that the community would like to attract and send specific proposals to these retailers to consider Mound. Conversations with these groups will also identify in greater detail their costs to operate, their general location criteria and whether Mound would be a good “fit” for them.

Office

Key Demographic and Market Findings

- From 2010 to 2020, the Market Area is forecast to add 1,274 jobs. Based on employment growth rates for the FIRE (Finance, Insurance and Real Estate) Sector and the portion of the Service Sector that typically occupies office space, the Market Area is projected to add 218 jobs that will require office space between 2010 and 2020. Utilizing the industry standard of 180 square feet of office space per employee, an estimated 39,240 square feet of office space will be needed in the Market Area during this decade.

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- Of the total office demand in the Market Area, Mound could capture approximately 15% to 20% or 5,900 to 7,800 square feet by 2020. New tenants are likely to be limited to businesses serving the local population and/or small businesses requiring about 1,500 square feet or less.

Demand Summary

- The majority of office demand will be from businesses serving the local household and business base. These are users such as insurance agents, attorneys, architects, graphic designers, real estate agents, accountants, financial planners, banks, dentists, chiropractors and medical offices. In addition, there is potential for Downtown Mound to attract small professional businesses with a regional or national customer base.
- The majority of businesses seeking office space in Downtown Mound will have five or fewer employees and will need about 1,500 square feet or less. We recommend traditional office space for this type of development as this has been the most successful overall.

Recommendations

- We recommend that office space be combined with other types of uses including retail or residential uses. With the limited amount of demand identified, combining the office space with other uses will provide more efficient utilization of land and could provide some synergies with these other uses.
- Lease rates for retail will vary considerably by class of space. Current office rents in and near Mound range from \$10.00 to \$14.00 net for older buildings and between \$10.00 and \$20.00 net for newer buildings. Smaller office users are likely to prefer to pay between \$14.00 and \$16.00 net per square foot for new space.

Lodging

Key Demographic and Market Findings

- Travel dipped again from 2008 to 2010 as the recession took hold. From 2011 to 2012, occupancy and room revenue started increasing again as companies and travelers gained more confidence in the economy.
- **Interest** in hotel development is again popular but most of this interest is occurring in heavy travel markets on the coast and major employment centers such as Chicago, Houston and in the North Dakota oil fields. Two boutique hotels are proposed in the Lake Minnetonka area, one in Excelsior and one in Wayzata. We are concerned about the potential impact of these two facilities on any lodging development that would occur in Mound and Mound's ability to support the necessary level of weekday occupancies in its local market.

Demand Summary

- Occupancy trends have fluctuated over the past several years as the Twin Cities and the US continue to pull out of the recession. Although the Metro Area is experiencing a more rapid recovery than other parts of the Nation, growth has been slow. Hotels surveyed in the area are performing at a 62% overall occupancy rate, below the rate of 70% to 75% which is considered healthy for limited service hotels. Despite a return to modest growth, Mound would likely struggle to supply sufficient weeknight occupancy to support even a small hotel (40 to 45 rooms).

Recommendations

- We recommend that Mound defer consideration of a hotel in the Downtown for at least another five years to further allow the recovery to take hold and implementation of additional development that could increase room night generation. Also, Mound should monitor the development of the two proposed hotels and their overall impact on the market should those facilities proceed.

Recommended Development Strategies

We recommend the following development strategies for the Downtown in the next phase of redevelopment:

Development of the remaining parcels for Lost Lake Villas is expected to be underway this summer. It is our understanding that units will be constructed as there are buyers, at least initially. A total of 16 units is to be developed in that area.

Rental housing is currently strong in the area as well as in the Twin Cities. We recommend the development of a mixed income rental building with 20% affordable units. This property could be developed in the Lost Lake area or another location.

Commerce Place shopping center is struggling with a high vacancy rate and has been unable to backfill the vacant space from the exiting of two anchor tenants. This is the final corner of the Highway 15 and Highway 110 intersection to be redeveloped, which is the key intersection in the Downtown. We understand that there have been previous proposals for this site that have been rejected. However, we urge the City to work closely with the developer to restructure this center to optimize its operations and to further enhance redevelopment of the Downtown.

Attracting a full-service, sit-down restaurant to Downtown Mound has been very challenging. We believe that a restaurant will have to be a component of a larger development with either additional commercial uses or additional commercial and residential uses to achieve this objective if the restaurant is to be located on the Channel. We recommend scouting for a regional

EXECUTIVE SUMMARY

restaurant that already has one or two other outlets and serves a range of relatively traditional menu items appealing to the broadest customer base.

As new development ensues, we recommend consistent publicity in the local and regional media to support increased awareness of Downtown Mound's efforts. Mound is, to a degree, a well-kept secret, that should no longer be a secret.

PURPOSE AND SCOPE OF STUDY

Maxfield Research Inc. was engaged by the City of Mound to conduct an update of current real estate market conditions for commercial and residential development with a focus on the Downtown Central Business District and the Lost Lake property. The analysis includes information on the existing supply of and market conditions for retail, office, hospitality and multi-family housing in the area. Growth trends and demographic characteristics were also analyzed and the impact of these trends on the potential to develop various types of real estate products in Mound.

Based on growth trends and market conditions in the area, demand was quantified for additional retail, office, hotel rooms, and multifamily housing units through 2020 in the Mound Market Area. Additionally, the amount of development that can be captured by Mound for each component is also provided. Demand calculations and recommendations are intended to serve as a guide in attracting specific development projects to Mound.

The report includes both primary and secondary research. Primary research includes interviews of City staff, community businessowners, commercial brokers, developers and real estate agents. Secondary data is credited to the source when used and is usually data from the U. S. Census Bureau or ESRI, Inc., a nationally recognized demographics firm, or is locally collected data such as building permit information, interviews with property managers, leasing agents, commercial brokers and stakeholders.

Sustainable Development

"Then I say the earth belongs to each . . . generation during its course, fully and in its own right, no generation can contract debts greater than may be paid during the course of its own existence." **Thomas Jefferson, September 6, 1789**

Sustainable development is economic development that is designed to meet a broad range of economic, social, and environmental goals. The concept of "sustainability" in the practice of economic development means attending to all costs and benefits in evaluating development options. Sustainable economic development increases the number of jobs and improves business sales by emphasizing local assets and resource conservation.

Sustainable development is defined in Minnesota Statute 4A.07(1) in the following manner:

. . .development that maintains or enhances economic opportunity and community well-being while protecting and restoring the natural environment upon which people and economies depend. Sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs."

Objectives of a Downtown Plan

- *Create or enhance a "central place"* as the physical and social heart of the community.
- *Restructure and enhance retail, restaurant, and entertainment facilities.* Such businesses often serve as public spaces, emphasizing downtown's role as a "central place."
- *Integrate transportation networks*, including pedestrian links to housing, traffic patterns and parking, and transit systems. Emphasize a "multi-modal" approach to link the major components of the community.
- *Improve use and access to natural features* in and near downtown, including rivers, bluffs, view sheds, and open space.
- *Restructure and enhance public buildings and cultural facilities* in the downtown. Libraries, city hall, post offices, and social organizations accent downtown's role as a "central place."
- *Create an urban form* where buildings relate well to one another and to the street. Exemplify good architecture and urban design practices.
- *Identify historic buildings* and historic architecture styles. Emphasize the importance of historic places as a community resource.
- *Increase opportunities for housing* in and around the core of the community.
- *Use the downtown to unify* nearby parks and cultural facilities.
- *Identify economic assets* of the downtown and expand and enhance these assets.

- *Identify opportunities for competitive economic investment*, emphasizing entrepreneurial and sustainable business opportunities and transportation planning to other community assets;

Historic places, environmental amenities, and public places are key assets in the community's downtown.

Downtown Mound, through its previous revitalization efforts, currently demonstrates many of the attributes of an effective downtown plan. The goal is to continue to further economic development in Mound while retaining a strong downtown environment and incorporating updated or new uses in the Downtown that will improve the community visually, economically and socially.

The National Historic Trust and its Main Street Program have identified eight guiding principles that distinguish it from other redevelopment strategies. These eight principles are:

Comprehensive

Downtown revitalization is complicated and cannot be accomplished through any single project. For successful long-term revitalization, a comprehensive approach must be applied and utilized over time.

Incremental

Small projects and simple activities lead to a more sophisticated understanding of the revitalization process and help to develop local skills to undertake increasing complex projects and ensuring that each local program builds its capacity to address these projects.

Self-help

Nobody else will save the Downtown. There are no white knights. Local leaders must be willing to make their commercial area successful. Programs are available locally and nationally that provide technical assistance and training, but sustained, long-term success depends upon the involvement and commitment of the local community.

Public-private partnership

The public and private sectors have a vital interest in the economic health and physical viability of the downtown. Each sector has a role to play and must understand the other's strengths and limitations to forge effective partnerships. Compromise and flexibility are crucial to both sides in the partnership.

Identifying existing assets

Commercial districts need to capitalize on those assets that make them unique and different. Every district has unique attributes, such as distinctive architecture or a pedestrian feel. This enables a sense of belonging. These local assets serve to differentiate each district and each community.

Quality

Quality must be emphasized in every aspect of the revitalization program. This applies equally to each element of the program, from storefront design to promotional campaigns to educational programs to organizational performance.

Change

Downtown revitalization can make skeptics become believers. Changes in attitudes and the ways that things are done are necessary to improve the district's economic conditions. Public support for change builds as the program is successful in its work.

Implementation

Actions create confidence in the program and increase local involvement. Frequent and visible changes even though they may be small, remind the community and downtown's stakeholders that revitalization is under way, beginning with small steps and building on those successes.

Downtown Overview

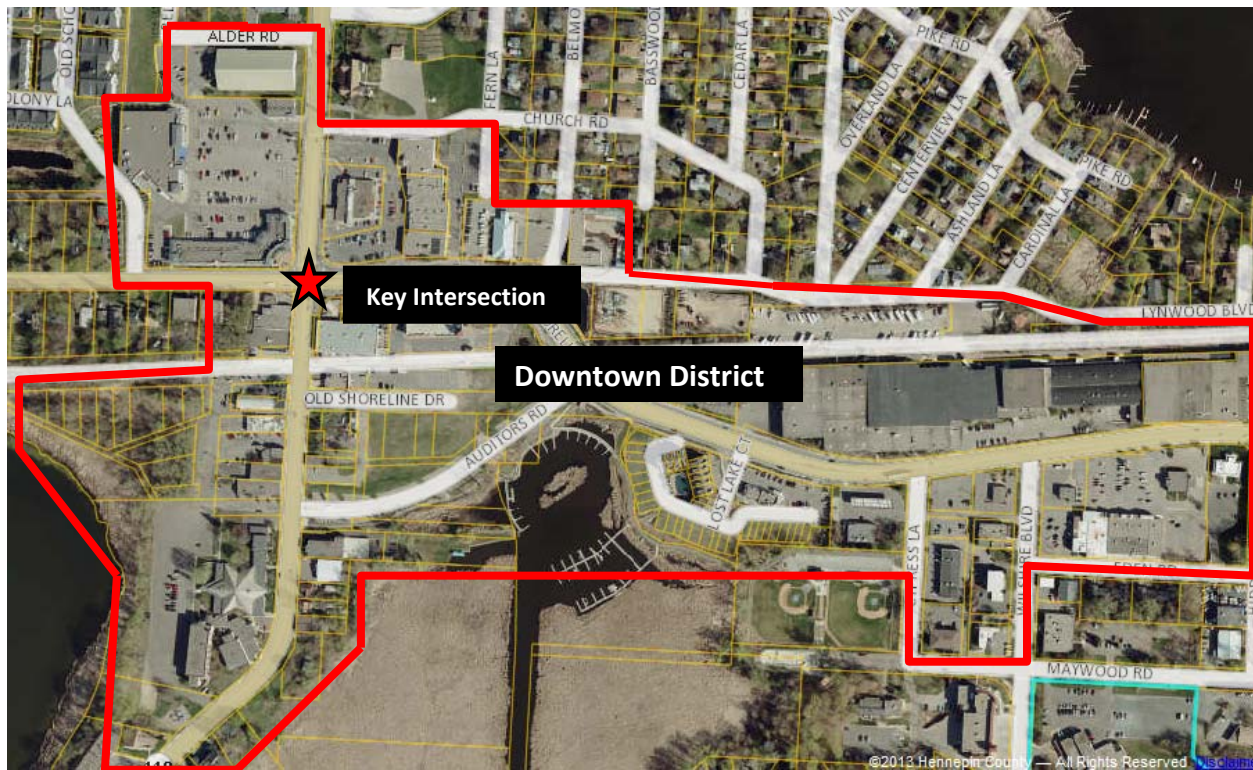
Mound is a community of just over 9,200 people (2012) located on the western fringe of the Twin Cities Metro Area. Mound is situated on the western end of Lake Minnetonka, a prime amenity in the Metro Area with over 20 square miles of surface water and close to 100 miles of shoreline. While Mound was once a free-standing community, the Twin Cities Metro Area has pushed outward and Mound is now surrounded by low-density residential neighborhoods in addition to rural land. Currently, the Lake area east of Mound is fully developed with residential neighborhoods and the land west of Mound consists primarily of rural land and newly-developing low-density neighborhoods.

The realignment of Highway 15 provided the community with an opportunity to consider changes to its Downtown. The Mound Harbor Renaissance District was created south of the realigned Highway 15 with a plan to bring a mix of retail, office, and multifamily housing that would be situated on the Lost Lake Channel. In total, plans were proposed for the addition of about 120,000 square feet of retail and office space, 75 hotel rooms, and 207 housing units. The economic recession in 2006 left the plan largely incomplete. Some components were put in place including eight townhome units, the infrastructure along Auditor's Road, the connection of the Lost Lake Channel to Mound Harbor and the city docks, a new Park and Ride garage, the relocation and expansion of several local businesses, a new Post Office and a small amount of new retail space facing Highway 15. Despite the downturn, a significant amount of development was accomplished in a short period of time.

Mound Downtown District

The Downtown District is essentially bounded on the north by Alder Road/Church Road on the east by Middenvale Lane, on the west by Langdon Lake and on the south by Maywood Road. This area contains the most significant concentration of commercial office and retail uses and is located in the area that is outlined on the aerial below.

Mound Downtown District



Mound Harbor Renaissance District

The Mound Harbor Renaissance property contains approximately 30 acres located south of Highway 15 (Shoreline Boulevard) on either side of Highway 110 (Commerce Boulevard). The Site abuts Langdon Lake to the west and the Lost Lake channel of Lake Minnetonka to the south. The new Dakota Trail, which extends from Wayzata to St. Bonifacius, comprises a portion of the District's northern border.

Mound Harbor Renaissance District



The original plan for the Mound Harbor Renaissance District identified uses for five separate areas within the redevelopment area (shown on the map on the following page). Proposed uses in each of the areas were as follows:

Auditor's Road District

- 75,500 square feet of commercial space (including one- and two-story buildings)
- 75-room hotel

The Lost Lake District – West

- 40 for-sale townhomes

The Lost Lake District – East

- 12,000 square foot, two-story commercial building

DOWNTOWN DISTRICT CHARACTERISTICS

The Langdon District

- 19,000 square foot commercial building
- 54 senior housing units
- 75 general-occupancy apartment units
- five for-sale townhomes
- five loft housing units

The South 110 District

- 12,000 square foot two-story commercial building
- 10 for-sale townhomes
- 18 loft condominiums

Several of these proposed uses remain viable for the District, but in smaller size projects in the short-term than were originally conceived. This analysis addresses the potential demand for multifamily housing, retail, office and hotel in Mound and the ability of the Downtown and Harbor District to support these uses and over what timeframe.

Access and Visibility

Properties located on Highway 15 and/or Highway 110 have the highest levels of visibility and access to the primary travel routes through the Downtown District. Highway 110 extends north-south and connects Mound with St. Bonifacius to the southwest and Maple Plain to the north. Highway 15 connects Downtown Mound with Watertown to the west and Wayzata and the Twin Cities Metro Area to the east.

While Highways 110 and 15 provide strong access and visibility from the immediate area, these highways primarily carry traffic from Mound and the nearby surrounding areas that draw people to Mound for shopping and business and/or through the community to other locations. This is primarily because many people living west or north and south of Highway 15 typically use Highway 7 (south of Mound) or Highway 12 (north of Mound) to drive into the western suburbs or into Downtown Minneapolis. These two highways both provide faster access to the greater Twin Cities Metropolitan Area than Highway 15. Highway 15 east of Mound has much lower posted speeds and is intended to be a slower moving local route through developed areas along the shores of Lake Minnetonka. It is not the preferred choice for commuters traveling to larger employment centers. Commuters are often more likely to make shopping trips outside of the immediate community on their way to and from work.

Traffic Volumes

The volume of traffic on the Downtown's two major highways reflects the predominantly local nature of the travel that occurs in the Downtown. These traffic counts are shown below on Table 1. By comparison, the traffic volume on Highway 12 north of Mound (between Maple Plain and Long Lake) was 20,000 vehicle trips per day in 2012, and the traffic volume on Highway 7 south of Mound (in Victoria) was 15,000 vehicle trips per day.

TABLE 1 TRAFFIC VOLUMES MOUND AREA 2008 through 2012			
Intersections	Average Annual Daily Trips		
	2008	2010	2012
Highway 110 and Highway 15			
North on 110	9,900	10,500	10,100
South on 110	7,650	8,200	8,400
East on 15	11,500	11,300	11,700
West on 15	4,100	4,450	4,200
Highway 15 and Highway 19			
North on 19	6,700	5,300	5,600
South on 19	12,000	13,200	11,700
East on 15	16,500	13,400	14,500
West on 15	18,200	18,300	18,400
<i>Sources: Maxfield Research Inc.; MNDOT</i>			

Visibility to properties in the District is excellent from Highway 110 – as the Highway bisects the redevelopment area. All of the housing and commercial buildings in the South 110 District would be located directly on Highway 110, as would a portion of the buildings in the Auditor's Road and Langdon Districts. Visibility from Highway 15 is also excellent to the Lost Lake District and the eastern portion of the Auditor's Road District. The central portion of the Auditor's Road District is the only commercial portion of the redevelopment area that does not have direct access from either highway.

Downtown Mound Overview

The existing Downtown encompasses about 40 acres and contains about 50 businesses, with approximately 110,000 total square feet of office and retail space. Although Highway 15 has been realigned, the 100% corner of the Downtown Central Business District is now the intersection of Highway 15 and Highway 110. Three of the four corners of this intersection have been redeveloped in the 2000s and now include a new building for Park True Value Hardware, Walgreens and Mound Marketplace, a 74,000 square foot retail center anchored by Jubilee Foods. At the intersection of Highway 15 and Highway 110, Carbone's Pizza and Grill is featured prominently on the second level of Mound Marketplace with an outside seating area. There is one vacant bay in Mound Marketplace and vacant retail space in Commerce Place (both end caps) and at Shoreline Plaza. New and existing businesses are considering some of the vacant space that is located in Mound, but in most cases, this would create vacant space elsewhere that would need to be filled.

New retail space is currently full, but that has essentially been a result of existing businesses relocating to new spaces and expanding. Older space vacated by these businesses has not been backfilled, indicating that there has been a flight to higher quality space. Existing businesses are essentially stable, but not growing significantly. The effects of the downturn in the economy were felt among businesses in Mound similar to other communities in the region. In general, Mound provides "basic" retail and commercial services to residents of Mound and the surrounding area, but does not generally attract customers as a "destination" location.

Visitors come to Mound primarily because of a local connection to a resident, via the Dakota Trail or other special event. Mound does not generally attract people who are just passing through. Summertime attracts more people to Mound because of outdoor activities including walking, biking and boating.

Strengths/Weaknesses

Based on interviews with existing business owners and stakeholders in Mound and our visual analysis of the physical layout of the Downtown, and its community orientation, the following bullet points identify the key strengths and weaknesses of the Downtown regarding its potential to support additional commercial space (retail and office), housing, and a hotel in the Downtown area. They are as follows:

Downtown Strengths

1. Existing Downtown infrastructure

Several years ago Mound completed a significant redevelopment that included dredging of the Lost Lake Channel to provide boat access and public docks to the southern shore of the Downtown. Additional property was created in the Mound Renaissance Harbor District south of Highway 15 along Auditor's Road. The downturn in the economy stifled new development, but platted parcels are in place to accommodate new development. Additional phases of the Lost Lake Villas are scheduled to begin construction this summer.

2. Access to Langdon Lake and the Lost Lake Channel

Langdon Lake and access to Lake Minnetonka through the Lost Lake Channel are amenities that have the potential to increase drawing power. Although this is an amenity to the Downtown, the general boating public has not taken advantage of what Mound has to offer via this access from Lake Minnetonka.

3. Dakota Trail

The 13.5-mile Dakota Trail operated by Three Rivers Park District now extends from Wayzata to Mayer with additional phases planned to be added. The trail is paved and is used primarily for biking, walking and rollerblading. Trail usage (2011) was estimated at 336,000 total visits with the majority of these visits 224,000 occurring during the spring/fall and approximately 170,000 occurring during the summer. The vistas along the trail of Lake Minnetonka and the surrounding area are considered to be spectacular.

4. Adjacent residential base

Most retail and service businesses are supported by the surrounding population base. Currently, Mound has a sizable population that has potential to support a greater amount of retail than currently exists in the community, but significant dollars continue to be spent outside of Mound, especially for specialty items.

5. Intersection of Commerce Boulevard and Highway 15 - 100% Corner

The redevelopment that has occurred at this intersection has created a new focal point for the Downtown. Three of the four corners have been redeveloped and have new commercial retail space. The fourth corner, Commerce Shopping Center, is the final segment to be redeveloped. These new spaces are drawing customers regularly to this location.

6. Community-Based Events

Mound participates in and sponsors a number of events in the community and in the Downtown area. The City's Farmer's Market is held seasonally from mid-May through mid-October and is located on the Dakota Trail and adjacent to the Mound Transit Center. Within direct view of Mound Harbor, the Farmer's Market, Spirit of

the Lakes Festival and other events provide residents and visitors with activities that bring people into the Downtown.

Downtown Weaknesses

1. Distance from large major thoroughfares

Mound is centrally located between Highway 7 and Highway 12 and is approximately five miles equidistant from either roadway. Commuters using these two major thoroughfares are likely to bypass Mound on their way to and from work which reduces the potential traffic that could be captured from drive-by traffic. Those that come to Mound do so usually because they are making a specific trip to the Downtown. They are not “stopping by.” The distance from either of these highways limits Mound’s ability to attract a larger amount of drive-by traffic. Drive-by traffic typically fuels demand for convenience retail uses and hospitality uses.

2. Limited larger “supporting retail”

Smaller retail stores often feed off traffic generated by larger stores, like grocery stores and hardware stores. Smaller retailers are likely to prefer locations that will be in close proximity to large retail generators. Retail that is primarily “destination” will be sought out by customers that have special needs and are willing to spend extra time to travel to a specific retail outlet.

3. Competition from nearby retail developments

For many shopping and specialty goods, particularly for larger items, residents of Mound and the surrounding area will continue to conduct most of their shopping in Minnetonka, Wayzata, Excelsior or other retail concentrations east of Mound.

Downtown Mound should try to enhance its current retail mix by identifying specific gaps in its retail offerings. Filling gaps in the current retail base will support customer service needs in the retail draw area. Additional demand may be generated through attracting customers that will come to Mound because of specific uses that are located in the community.

4. Commuting to employment outside of the City

While Mound is one of the only communities in the area that has some light manufacturing employment, its employment base, similar to other nearby communities, has a sizeable concentration of retail jobs. Retail employment in Mound accounted for 16% of total place of work employment as of 4th Quarter 2012. This does not include self-employed workers that would add another 10% to the total employment base.

Key Characteristics to Attract New Business Development to Downtown

Based on traffic volumes on major thoroughfares, new redevelopment, geographic orientation and projected growth of trade area households, Mound can continue to attract new development, but growth is most likely to occur through the redevelopment of older space and new businesses that will understand and support the local dynamics of the community.

For many daily services, nearby residents find Mound convenient. Existing specialty retail and services are also positioned to serve the immediate surrounding population and household base, but do not generally attract customers from far outside of those areas. There is an existing and growing population in close proximity to Mound that finds shopping in the Downtown to be very convenient and people in the area support Mound businesses. Although Downtown Mound lacks large traffic volumes, Langdon Lake, Lake Minnetonka and the Dakota Trail enhance the Downtown's ambiance. Mound has much to offer, but was hampered by the economic downturn which caused some planned projects to stagnate. Activity in development and interest in Mound is increasing, but Mound must strategically target the investments that it makes moving forward to optimize the benefits of new development. Additional synergies can be derived from completing the Lost Lake Villas project, redeveloping Commerce Center and considering uses that will enhance the existing commercial base rather than just shift businesses from one location to the next. While the recent shifts were necessary to obtain an improved image for the Downtown, new businesses are now needed to support further expansion.

We see the following strategies as critical to Downtown's further growth and development:

- Redevelopment of Commerce Place Shopping Center to complete the 100% Corner;
- Additional residential development in the Mound Harbor Renaissance District;
- Targeted destination uses along Auditor's Road, maintaining view sheds as much as possible;
- Consider combining public, private uses together to support a key signature redevelopment project;
- Increase awareness of Mound development opportunities through the City website;
- Assist the Economic Development Committee in targeting local and regional businesses for expansion into Mound; identify best "fit" with Mound needs;
- Avoid duplicating existing uses with more of the same; new businesses should provide or target needs not currently being served by existing businesses.

We believe that based on the Downtown's strengths, and accounting for its weaknesses, Downtown Mound will be able to capture a portion of existing and future demand for retail, office and housing in the surrounding area. It will not be able to capture all of the demand, as no one location can capture 100% of the demand in a given area.

Introduction

This section of the report presents an analysis of the demand for housing in Mound with special focus on the need for multifamily housing in the Downtown, based on an examination of demographic characteristics, growth trends, and the housing market situation in the Market Area. The Market Area is defined as the area from which housing is most likely to attract buyers/renters. Demographic data analyzed include population, household and employment growth trends, population age distribution, household incomes, household types and household tenure.

The existing supply of owned and rental housing in the Market Area is assessed. Presented are overall vacancy and rental rates at properties located in Mound and surrounding communities including Spring Park, Excelsior and Wayzata, resales of single-family and multifamily homes and pricing at newer developments. Planned new housing developments are also identified in the Market Area.

Based on the analysis, we quantify the potential demand for a variety of housing products in the community and focus on recommendations for housing products that have the highest potential demand through 2020.

Housing Market Area Definition

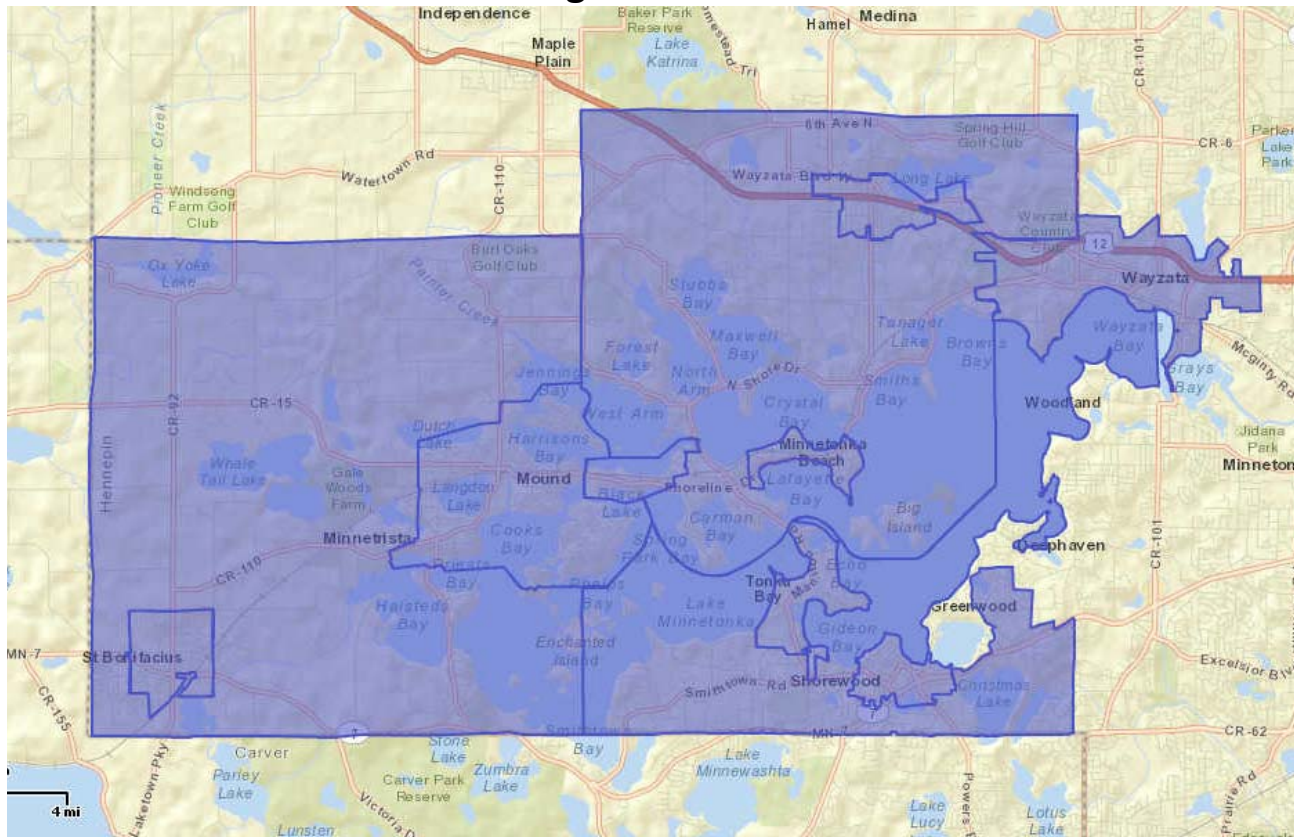
Maxfield Research Inc. determined the primary draw area for housing in Mound based on geographic and man-made boundaries, commuting patterns, and our knowledge of the Mound area. The draw area (Market Area) includes the Cities of Mound, Excelsior, Long Lake, Minnetonka Beach, Minnetrista, Orono, St. Bonifacius, Shorewood, Spring Park, Tonka Bay and Wayzata. Additional demand will come from outside of this area because people that want to live on the Lake are finding that Mound has some significant benefits:

- Housing that is priced at a level that is more affordable than other Lake Minnetonka communities;
- Lakefront property that is more affordable than other Lake Minnetonka communities;
- A variety of housing in multiple price categories;
- A very highly-rated school district (Westonka Public Schools); Mound Westonka High School was named one of the top high schools in the country by US News and World Report.
- Small town community environment but easy driving distance to Downtown Minneapolis (30 minutes).
- Seventeen miles of shoreline that offer more opportunities to own lakefront property;

HOUSING MARKET ANALYSIS

People currently residing and working in this geographic area comprise roughly 70% of the potential market for housing in the community. More people are choosing Mound and home sales activity increased in 2013. A map of the Market Area is shown below.

Housing Market Area



Demographic Overview

Introduction

Population, household, and employment growth trends are analyzed in this section because these are key indicators of the potential demand for new housing units. Data was also analyzed on population age distribution, household income, household type and household tenure. This information is helpful in assessing demand for various housing products. The following are key points from the demographic analysis.

Population and Household and Employment Growth Trends and Projections

Table 2 presents population, household, and employment growth trends and projections for the Housing Market Area from 2000 to 2030. The 2000 and 2010 figures are from the Census and the 2013 estimate and 2020 and 2030 projections were made by Maxfield Research Inc.

based on data obtained from the Metropolitan Council and ESRI Inc., a national demographics forecasting company.

- Mound had 9,435 people and 3,982 households in 2000, or 28% of the Market Area's population (33,868 people) and 31% of the household base (13,007 households). By 2010, Mound's population had decreased to 9,052 people and 3,974 households. The decrease in population and households primarily reflects an aging household base with fewer people in each household. This trend is affecting many other communities in the Twin Cities region, particularly those that have limited land available for new housing development.
- The Housing Market Area's population increased by 5.1% during the 2000s and households increased by 7.5% (from 13,007 households to 13,980 households). In comparison, the Metro Area's population and household base grew by 7.9% and 9.4%, respectively, during the same period. The Metro Area experienced a faster growth rate because it includes areas with a significant amount of land available for new residential development and urban areas that have increased in density.
- The Market Area is growing, but growth has been low, limited in large part to a lack of available land. Although Mound's population decreased by 383 people, households decreased by only eight. New land was made available in the Mound Harbor Renaissance District and other sites could be made available as well for new housing through redevelopment. Although growth in Mound during the past decade was affected in part, by the housing market downturn, demand has increased as the housing market continues to recover. Mound is currently experiencing strong demand for owner occupied housing, primarily single-family homes.
- Declining average household size caused Mound's population to decrease. The average household size decreased from 2.60 in 2000 to 2.54 in 2010 and is projected to decrease to 2.52 by 2020. Some of the decrease in household size will be mitigated by younger households with children moving into existing homes and older households transitioning to other housing products.
- Household growth trends are a better indicator of housing demand than population growth because households represent occupied dwelling units. Between 2000 and 2010, Mound lost eight households (3,974 households).
- Mound is projected to add 261 households this decade, provided that new housing development is accommodated in the community in both low-density, medium density and high density developments.
- New development is planned for Wayzata (senior and general market housing), Minnetrista (single-family and multifamily) and additional single-family development is likely in some of the other outlying areas such as Watertown, Independence and Maple Plain. Residential

development in these communities will increase the potential customer base in Mound as most businesses regularly draw clientele from these communities. Restrictions on medium and high-density development in communities west of Mound provide an opportunity to capture demand for multifamily development from households looking for greater convenience.

TABLE 2 POPULATION AND HOUSEHOLD GROWTH TRENDS AND PROJECTIONS MOUND HOUSING MARKET AREA 2000 to 2030											
	Census		Estimate	Projection		Change					
	2000	2010		2020	2030	2000 to 2010		2010 to 2020		2020 to 2030	
						No.	Pct.	No.	Pct.	No.	Pct.
Population											
Mound	9,435	9,052	9,230	9,400	9,480	-383	-4.1	348	3.8	80	0.9
Rem. Of Market Area	25,271	28,454	29,274	29,204	31,550	3,183	12.6	750	2.6	2,346	8.0
Total	34,706	37,506	38,504	38,786	41,030	2,800	8.1	1,280	3.4	2,244	5.8
Hennepin County	1,116,206	1,152,425	1,177,220	1,265,250	1,397,610	36,219	3.2	112,825	9.8	132,360	10.5
Twin Cities Metro Area	2,642,062	2,849,567	2,868,250	3,144,000	3,447,000	207,505	7.9	294,433	10.3	303,000	9.6
Households											
Mound	3,982	3,974	4,052	4,235	4,350	-8	-0.2	261	6.6	115	2.7
Rem. Of Market Area	9,296	10,758	11,092	11,150	12,180	1,462	15.7	392	3.6	1,030	9.2
Total	13,278	14,732	15,144	15,385	16,530	1,454	11.0	653	4.4	1,145	7.4
Hennepin County	456,129	475,913	488,470	525,000	594,615	19,784	4.3	49,087	10.3	69,615	13.3
Twin Cities Metro Area	1,021,456	1,117,749	1,147,300	1,293,000	1,464,000	96,293	9.4	175,251	15.7	171,000	13.2
Sources: Census Bureau (2000 & 2010); Metropolitan Council; Maxfield Research Inc.											

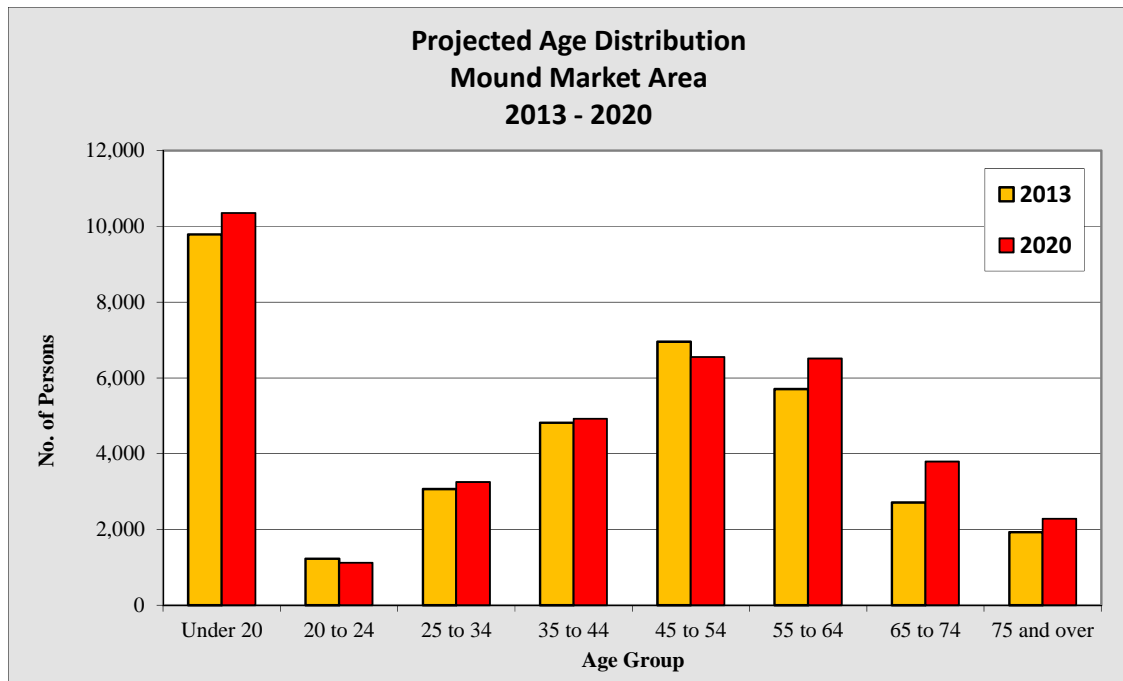
Age Distribution

The age distribution of the population relates to the type of housing needed in a given community. Younger and older people tend to be attracted to higher density housing located near services and entertainment; mid-age people (particularly those with children) tend to prefer lower-density single-family homes. Table 3 presents the age distribution of the Housing Market Area population in 2000 and 2010 from the Census with an estimate for 2013 and a projection to 2020. The table shows the number of people and the percent of the population in eight age categories.

- The significant investment made in the Downtown and its mixed use setting lends itself to multifamily housing products. Although multifamily housing now attracts people of most ages, it remains dominated by younger and older households. Property located in the Mound Harbor District and other sites in the Downtown are most likely to appeal to young to mid-age singles and couples without children (25 to 45) and empty nesters and young seniors (ages 55+). During this decade, the 25 to 44 age cohort is projected to grow by 2,700 people, the 55 to 64 cohort by 7,800 and seniors (65+) by 6,800 people.

- During the 2000s, the echo boom generation or Millennials (born 1980 and later) aged into their early household formation years (ages 21 and older). This group has fueled a high demand for rental apartments and student housing. A number of people in this age group are delaying having children and because of the economic downturn, purchasing housing. Meanwhile, older baby-boomers continued to move up and a portion started to “right size” their housing, selling the single-family home and moving to townhomes, condominiums and apartments. These trends supported the demand for housing products other than the traditional single-family home. During this decade, a housing market recovery is expected to generate increased demand for ownership housing (single-family and multifamily) and continued demand for rentals from those that, because of lifestyle or financial reasons, prefer to rent rather than own. The baby boom generation is currently ages 49 to 67, spanning nearly two decades. The Millennial generation born after 1980 also spans 20 years. Combined, these two generations span 40 years and comprise a significant proportion of the overall housing market. Although it is difficult to fully categorize the needs of each of these generations, trends show that baby boomers are more likely than their parents’ generation to consider alternative housing products earlier in their life cycle and the Millennials are more likely to place lifestyle considerations at the top of their lists when selecting a housing product. As such, we can expect to see more demand for rental housing and multifamily housing products moving forward.

TABLE 3 PROJECTED AGE DISTRIBUTION MOUND HOUSING MARKET AREA 2000 to 2020								
Age	Census		Estimate	Forecast	Change			
					2000-2010		2010-2020	
	2000	2010	2013	2020	No.	Pct.	No.	Pct.
Under 20	9,668	9,768	9,786	10,352	100	1.0	584	6.0
20 to 24	1,175	1,198	1,226	1,121	23	2.0	-77	-6.4
25 to 34	3,674	3,008	3,066	3,253	-666	-18.1	245	8.1
35 to 44	6,726	4,861	4,822	4,921	-1,865	-27.7	60	1.2
45 to 54	6,153	7,058	6,956	6,549	905	14.7	-509	-7.2
55 to 64	3,239	5,360	5,708	6,511	2,121	65.5	1,151	21.5
65 to 74	1,717	2,498	2,716	3,796	781	45.5	1,298	52.0
75 and over	1,516	1,856	1,927	2,283	340	22.4	427	23.0
Total	33,868	35,607	36,207	38,786	1,739	5.1	3,179	8.9
Sources: Bureau of the Census; ESRI, Inc.; Maxfield Research Inc.								



- The social changes that began with the aging of the baby boom generation, such as higher divorce rates, higher educations, and lower birth rates has continued through subsequent generations and have resulted in a greater diversity of lifestyles than existed in the past. This increased variety of lifestyles has fueled demand for alternative housing products to the single-family home. Households of all ages tend to travel more and participate in more leisure and recreational activities than previous generations and increasingly households consider products that offer a higher level of convenience, enabling them to spend more time on activities outside the home.
- The Housing Market Area had a total of 9,668 people under age 20 in 2000, or about 28.5% of the population. In 2010, this group had increased by 100 people to 9,768, accounting for 27.4% of the population. Growth among the Millennials has also caused increases in the age 20 to 24 cohort, which is expected to affect the 25 to 34 age cohort during this decade (growth of 245 people). The largest increases however, are expected to be among those ages 55 to 64 and those ages 65 to 74. These age groups are most likely to reside in single-family homes and to consider alternative housing products as they seek a higher level of convenience in their lifestyles. Many households are discovering the conveniences of living in close proximity to goods and services and to be able to readily access entertainment and recreational opportunities. Downtown Mound offers this type of environment and new housing in the Downtown could attract households that are looking for a higher level of life-style flexibility.

Household Income

Household income data assist in ascertaining the demand for different types of owned and rented housing based on the size of the market at specific cost levels. In general, housing costs of up to 30% of income are considered affordable by the Department of Housing and Urban Development (HUD). Tables 4 and 5 show household incomes in the Market Area for 2013 and 2018, respectively. Household income projections were made by Maxfield Research Inc. based on data from ESRI Inc., a national demographics firm, and estimates from the American Community Survey, 2011, published by the Census Bureau.

- The median household income in the Market Area in 2003 is estimated to be about \$85,000. In comparison, the Metro Area median income in 2003 is estimated at \$76,500. The slightly higher median income in the Market Area is, in part, a reflection of a high proportion of owner-occupied housing to rental housing in the Market Area.
- Assuming housing costs absorb 30% of gross income, a household earning the 2003 Market Area median household income (\$85,000) could afford a maximum monthly rent of \$2,125 (including rent, utilities, and garage parking) or a maximum purchase price of about \$212,500 to \$255,000 (based on purchasing a home priced at 2.5 to 3.0 times their income).
- Households ages 25 to 34 are typically in the rental market or entry-level for-sale market – which is often a multifamily unit. Their median income in 2003 is about \$73,000. With this income, a household could afford a monthly rent of \$1,825 (including rent, utilities, and garage parking) or a maximum purchase price of about \$182,500 to \$219,000 (based on spending 2.5 to 3.0 times their income toward for-sale housing). Renters typically have incomes less than the median, however, and most would not be able to afford rents of \$1,825 per month. It should be noted that low mortgage rates can limit or constrain the demand for rental housing, as home ownership becomes more attainable for households who would typically seek rental opportunities.
- Households ages 25 to 34 are typically in the rental market or entry-level for-sale market (often multifamily housing). Households in this age group are projected to increase by 8.1% (or 670 households) between 2003 and 2008. Demand for rental housing will also increase from households ages 15 to 24, who are projected to increase by 220 households. Demand for for-sale townhomes will increase from households ages 55 to 64, who are projected to increase by 1,810 households. Households ages 15 to 24 are generally in the market for affordable rental housing, while householders ages 55 to 64 are generally in the market for for-sale townhomes or condominiums.
- The typical price/rent for independent senior housing is \$960 per month that would reflect an income of \$38,000 based on spending 30% of income on rent. In 2003, there were an estimated 5,540 seniors (65 years +) with incomes greater than \$38,000 or 53% of all seniors. Many seniors also have equity in their existing homes that they could use to contribute to the fees for alternative housing.

HOUSING MARKET ANALYSIS

TABLE 4
HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER
MOUND HOUSING MARKET AREA
(Number of Households)
2013

Mound	Total	Age of Householder						
		15-24	25-34	35-44	45-54	55-64	65-74	75+
Less than \$15,000	286	7	35	31	57	58	50	48
\$15,000 to \$24,999	311	8	35	30	53	47	52	86
\$25,000 to \$34,999	258	6	28	26	51	44	29	74
\$35,000 to \$49,999	498	21	74	70	108	93	70	62
\$50,000 to \$74,999	901	20	136	156	225	207	123	34
\$75,000 to \$99,999	639	10	110	128	186	139	55	11
\$100,000 or more	1,159	9	104	268	410	288	59	21
Total	4,052	81	522	709	1,090	876	438	336
Median Income	\$66,617	\$48,379	\$63,743	\$81,409	\$80,431	\$73,153	\$52,299	\$28,570
Remainder of Market Area	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Less than \$15,000	518	15	47	61	80	86	58	171
\$15,000 to \$24,999	496	21	38	40	53	67	137	140
\$25,000 to \$34,999	524	14	52	67	85	92	73	141
\$35,000 to \$49,999	820	14	89	116	145	176	120	160
\$50,000 to \$74,999	1,412	24	176	247	305	318	219	123
\$75,000 to \$99,999	1,383	13	164	291	366	322	168	59
\$100,000 or more	5,082	22	257	1,003	1,760	1,395	473	172
Total	10,235	123	823	1,825	2,794	2,456	1,248	966
Median Income	\$95,156	\$47,275	\$75,467	\$107,720	\$121,272	\$110,741	\$70,987	\$36,301
Market Area Total	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Less than \$15,000	804	21	81	91	136	143	107	218
\$15,000 to \$24,999	807	28	72	79	105	113	188	225
\$25,000 to \$34,999	782	19	79	92	135	135	101	214
\$35,000 to \$49,999	1,318	34	162	185	252	268	189	221
\$50,000 to \$74,999	2,313	43	311	402	529	524	341	156
\$75,000 to \$99,999	2,022	22	273	418	551	460	222	70
\$100,000 or more	6,241	30	360	1,270	2,169	1,682	527	191
Total	14,287	197	1,338	2,537	3,877	3,325	1,675	1,295
Median Income	\$87,126	\$47,935	\$70,907	\$100,079	\$109,905	\$100,961	\$66,473	\$34,403

Sources: Bureau of the Census; ESRI; Maxfield Research Inc.

HOUSING MARKET ANALYSIS

TABLE 5
HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER
MOUND HOUSING MARKET AREA
(Number of Households)
2018

Mound	Total	Age of Householder						
		15-24	25-34	35-44	45-54	55-64	65-74	75+
Less than \$15,000	272	6	32	25	43	53	57	56
\$15,000 to \$24,999	231	9	26	11	31	25	46	83
\$25,000 to \$34,999	182	5	19	11	26	29	25	67
\$35,000 to \$49,999	418	17	61	52	75	74	73	66
\$50,000 to \$74,999	815	17	122	128	178	189	141	40
\$75,000 to \$99,999	839	11	143	158	220	189	99	19
\$100,000 or more	1,425	6	134	326	455	374	99	31
Total	4,182	71	537	711	1,028	933	540	362
Median Income	\$78,919	\$48,137	\$76,108	\$94,341	\$91,785	\$85,604	\$59,360	\$30,428
Remainder of Market Area	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Less than \$15,000	510	15	50	45	63	80	68	189
\$15,000 to \$24,999	385	18	30	22	28	40	120	127
\$25,000 to \$34,999	390	18	42	33	48	61	65	123
\$35,000 to \$49,999	700	15	80	85	100	143	115	162
\$50,000 to \$74,999	1,253	25	159	199	228	275	236	131
\$75,000 to \$99,999	1,797	23	213	353	413	414	279	102
\$100,000 or more	5,855	29	302	1,116	1,808	1,668	680	252
Total	10,890	143	876	1,853	2,688	2,681	1,563	1,086
Median Income	\$103,309	\$44,690	\$80,113	\$113,712	\$128,769	\$119,092	\$87,180	\$41,338
Market Area Total	Total	15-24	25-34	35-44	45-54	55-64	65-74	75+
Less than \$15,000	782	17	79	68	104	131	122	243
\$15,000 to \$24,999	616	25	53	31	57	63	165	208
\$25,000 to \$34,999	572	18	59	42	72	88	88	188
\$35,000 to \$49,999	1,118	28	139	135	173	215	186	226
\$50,000 to \$74,999	2,068	38	279	325	403	462	375	169
\$75,000 to \$99,999	2,636	30	354	509	631	601	376	119
\$100,000 or more	7,280	31	434	1,440	2,262	2,038	777	280
Total	14,956	187	1,397	2,550	3,702	3,598	2,089	1,433
Median Income	\$97,290	\$52,451	\$79,491	\$108,935	\$118,986	\$110,938	\$80,573	\$39,015

Sources: Bureau of the Census; ESRI, Inc.; Maxfield Research Inc.

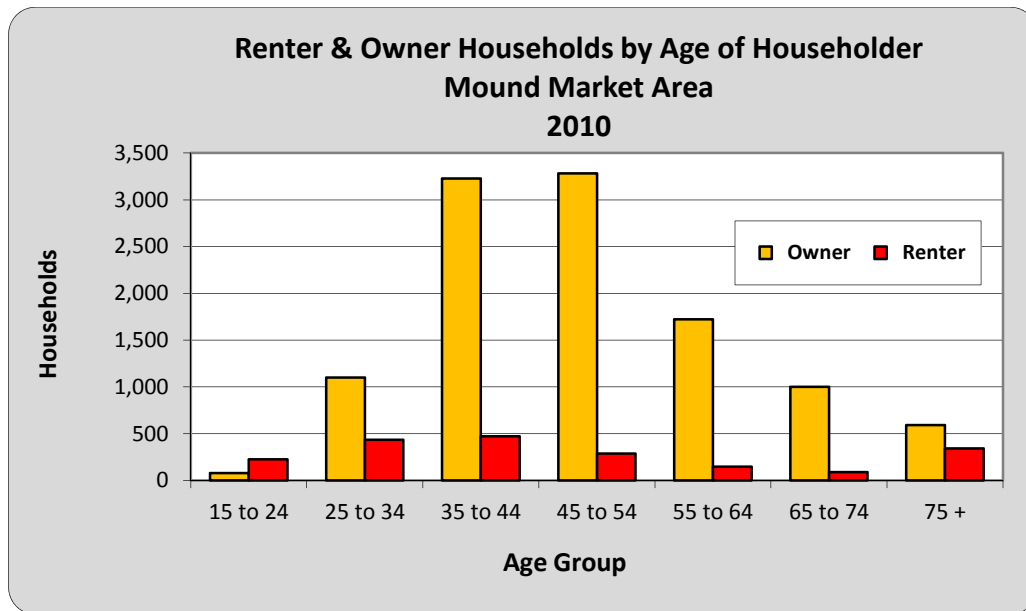
Tenure by Age of Householder

Table 6 shows the number of owner and renter households in the Market Area by age group in 2000 and 2010. These data are useful in determining demand for certain types of housing since housing preferences change throughout an individual's life cycle. Key points derived from the table are:

- In 2000, 84.6% of the households in the Market Area owned their housing. By 2010, the proportion had decreased slightly to 83.1%. In comparison, the homeownership rate for the Twin Cities was 71%, in 2000 and 68% in 2010. The high proportion of ownership housing reflects the low density character of much of the Market Area and the high proportion of the housing stock as single-family homes.

TABLE 6 TENURE BY AGE OF HOUSEHOLDER MOUND HOUSING MARKET AREA 2000 & 2010					
	2000		2010		Change
	No.	Pct.	No.	Pct.	No.
15 to 24					
Owner	81	26.5%	52	24.9%	-29
Renter	225	73.5%	157	75.1%	-68
25 to 34					
Owner	1,101	71.7%	848	64.5%	-253
Renter	435	28.3%	466	35.5%	31
35 to 44					
Owner	3,227	87.2%	2,128	82.8%	-1,099
Renter	471	12.8%	443	17.2%	-28
45 to 54					
Owner	3,283	91.9%	3,435	86.7%	152
Renter	288	8.1%	525	13.3%	237
55 to 64					
Owner	1,721	92.0%	2,821	90.0%	1,100
Renter	149	8.0%	315	10.0%	166
65 to 74					
Owner	1,003	91.8%	1,387	90.0%	384
Renter	89	8.2%	154	10.0%	65
75 +					
Owner	593	63.5%	944	75.6%	351
Renter	341	36.5%	305	24.4%	-36
Total					
Owner	11,009	84.6%	11,615	83.1%	606
Renter	1,998	15.4%	2,365	16.9%	367
Metro Area		71.4%		70.0%	
Sources: Census Bureau; Metropolitan Council; Maxfield Research Inc.					

- The proportion of households that rent their housing decreases as households age. By the time households reach their senior years however, rental housing becomes somewhat more desirable than homeownership. In 2010, the percentage of households that rented their housing increased in each age cohort except for households age 75 years or older, which decreased. The chart on the following page highlights the shifts in owned and rental housing by age group in 2010. Rental housing (traditional multifamily) and senior housing is most appropriately located near goods and services because market segments that prefer this type of housing are convenience-oriented. In addition, seniors often prefer not to drive or drive less often. Downtown Mound offers convenience-oriented households a variety of basic services.



- We project that a higher proportion of households will choose to rent in the short-term, due to the overall aging of the population, caution regarding overall appreciation of owned housing and a general desire for higher mobility and flexibility that renting offers over owning.
- However, increased affordability and mortgage interest rates at record lows are also tempting households that have strong credit and cash equity to make a move. Overall, homeownership is anticipated to remain high among all middle age cohorts (above 80%) through 2020. More affordable housing and low mortgage interest rates will contribute to ongoing demand for for-sale housing in the Market Area. Downtown Mound can capture a portion of the demand for single-family and multifamily ownership housing and also a portion of the demand for new rental housing, since many surrounding communities either do not allow high-density housing or have little land available to accommodate new housing. New multifamily housing in Wayzata (senior and condominium) has been absorbing well recently.

Household Type in 2000 and 2010

As with age distribution, the trends in types of households have an impact on the demand for different types of housing. Table 7 presents data on the types of households in the Market Area in 2000 and 2010. Family households include married-couple families with children ("traditional" families), married couples without children (mostly empty nesters, but also young married couples who have not yet had children or will never have children), and other-family households, such as single parents. Non-family households include people living alone and "other" roommates (unrelated individuals living together, including unmarried couples). The following are key findings from the table.

- In 2000, married couples accounted for nearly 64% of all households in the Market Area. Married couples without children were 52% of the total, while Married Couples with children were 48% of the total. The second largest group was people living alone which accounted for 22% of the total; Other Family households (primarily single-parent households) accounted for nearly 9%. By 2010, all household type categories increased except for Married Couples with Children, which decreased. The household type that experienced the most rapid growth during the 2000s was nearly evenly split between people living alone and Married Couples without children. Married couples without children remains the largest household type in the Market Area.
- Married couples without children includes empty nesters, which are increasingly a market for for-sale multifamily housing, and younger couples without children, who are also a primary market for rental housing and for-sale multifamily housing. Empty nesters and younger childless couples represent the primary market segments for housing in the Downtown except that people living alone of any age are also a strong market for multifamily housing whether for-sale or for rent. Married couples with children still largely prefer single-family homes, although an increasing number will choose a townhome.
- There were 3,573 non-family households in the Mound Housing Market Area in 2000. This figure increased to 4,026 households by 2010, an increase of 453 households or 11.3%. People living alone, who are a strong market for Downtown housing, exhibited a significant increase during this period. Seniors often comprise a significant portion of this category, and are a primary market for Downtown housing, because living within walking distance, and thereby reducing the need to drive, is important to seniors.
- The number of other families (primarily single-parents), increased by 264 households between 2000 and 2010. This growth is the result of overall lifestyle changes, which also resulted in growth of non-family roommate households during the decade. Non-family and other-family households in the Market Area increased by 717 households during the 2000s, while married couple families increased by only 256 households. These trends should continue, as the baby boom generation ages into their young senior years and the number of younger householders increases. The result is an increased demand for rental housing, including affordable housing and multifamily owned housing. Many households are open and interested in an option that offers them convenient access to goods and services, entertainment and recreation opportunities such as those available in Downtown Mound.
- Roommate households consist of unrelated people living with each other to share housing costs and also unmarried couples without children, among others. In the past, most of these people tended to be younger and most still are. However, there is a growing group of cohabitating couples that have never married or prefer not to marry again. A number of these households may want to live in locations that are closer to entertainment, activities and other nightlife and would be a target market for housing in Downtown Mound. Roommate households increased by 57 households or 7.7% in the 2000s.

HOUSING MARKET ANALYSIS

TABLE 7
HOUSEHOLD TYPE
MOUND HOUSING MARKET AREA
2000 & 2010

	Total HH's		Family Households						Non-Family Households			
			Married w/ Child		Married w/o Child		Other *		Living Alone		Roommates**	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Number of Households												
Mound	3,982	3,974	945	759	1,184	1,152	430	533	1,128	1,220	295	310
Rem.of Market Area	9,025	10,006	3,050	3,099	3,121	3,546	704	865	1,705	2,009	445	487
Market Area Total	13,007	13,980	3,995	3,858	4,305	4,698	1,134	1,398	2,833	3,229	740	797
<i>Hennepin County</i>	456,129	475,913	95,469	89,084	111,018	116,099	60,816	67,702	145,086	155,807	43,740	47,221
Percent of Total												
Mound	100.0	100.0	23.7	19.1	29.7	29.0	10.8	13.4	28.3	30.7	7.4	7.8
Rem.of Market Area	100.0	100.0	33.8	31.0	34.6	35.4	7.8	8.6	18.9	20.1	4.9	4.9
Market Area Total	100.0	100.0	30.7	27.6	33.1	33.6	8.7	10.0	21.8	23.1	5.7	5.7
<i>Hennepin County</i>	100.0	100.0	20.9	18.7	24.3	24.4	13.3	14.2	31.8	32.7	9.6	9.9
Change												
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Mound	-8	-0.2%	-186	-19.7%	-32	-2.7%	103	24.0%	92	8.2%	15	5.1%
Rem.of Market Area	981	10.9%	49	1.6%	425	13.6%	161	22.9%	304	17.8%	42	9.4%
Market Area Total	973	7.5%	-137	-3.4%	393	9.1%	264	23.3%	396	14.0%	57	7.7%
<i>Hennepin County</i>	19,784	4.3%	-6,385	-6.7%	5,081	4.6%	6,886	11.3%	10,721	7.4%	3,481	8.0%
* Single-parents and unmarried couples with children												
** Includes unmarried couples without children												
Source: US Census Bureau												

- The increased diversity of household types in the Market Area, caused by overall lifestyle changes, is creating a need for a wider range of housing options. For example, non-family householders tend to rent their housing more so than the other household types. This category includes elderly widows as well as young people. A proportion of young people do not have sufficient incomes to purchase housing, while single seniors are more likely to move to multifamily housing to shed the burden of home maintenance and to have more opportunities for socialization.

Residential Construction Trends

Table 8 presents information on the number of residential units added to the housing stock from building permits issued by the Market Area jurisdictions. The following are key points from the table.

- Over the past three years, 2010 through 2012, 481 new housing units were added in the Market Area. Of the new units added, 42% were single-family homes (204 units).
- Minnetrista led the Market Area by adding 83 new single-family units, followed by Orono (50 units). Shorewood and Wayzata tied with 34 units each. Two multifamily properties were developed during the period, 52 units in Spring Park and 225 units in Wayzata.
- The supply of vacant land in the Housing Market Area continues to dwindle. This situation, couple with the fact that most of the Market Area communities are zoned primarily for single-family homes, offers Mound an opportunity to capture a larger share of the Market Area's multifamily housing development this decade.
- Multifamily development among the Housing Market Area communities accounted for 58% of the total units, but all of these units (277) were concentrated in two developments in two communities. We anticipate that increased demand for townhomes will be fueled by the growing number of baby boomers that are becoming empty-nesters and also by a growing preference for townhomes and condominiums by younger and middle age householders who value affordability and limited-maintenance offered by these type of housing products.

TABLE 8
RESIDENTIAL UNITS ADDED FROM BUILDING PERMITS ISSUED
MOUND HOUSING MARKET AREA
2010 through 2012

	Mound	Spring Park	Tonka Bay	Minnetrista	Excelsior	Orono	Shorewood	St. Boni	Wayzata	Total
	Single-Family									
2010	6	2	1	33	0	10	8	1	8	61
2011	7	1	1	29	1	15	8	0	13	62
2012	6	0	5	21	6	25	18	0	13	81
Total	19	3	7	83	7	50	34	1	34	204
	Multifamily									
2010	0	52	0	0	0	0	0	0	0	52
2011	0	0	0	0	0	0	0	0	0	0
2012	0	0	0	0	0	0	0	0	225	225
Total	0	52	0	0	0	0	0	0	225	277

Source: US Census

Impact of Demographic Trends on Housing

- The most significant demographic trends affecting demand for housing in Mound are the aging of the baby boom generation (empty-nesters) that is looking for housing options that provide greater flexibility and relief from exterior home maintenance and young to mid-age households looking for maximum flexibility that a rental option can provide. Although growth is not projected to be significant this decade, the lack of new housing and pent-up demand from the recession is causing an increase in residential activity across all product types.
- A higher proportion of households than in the past are looking for greater convenience and rental housing can offer that flexibility. The current rental market situation in the Twin Cities Metro Area and in the Mound Housing Area demonstrates increased market activity (home resales), low rental vacancy rates (pent-up demand), increased interest in purchasing a home with mortgage interest rates at all-time lows, greater confidence in the employment outlook and greater affordability as home prices have decreased. There is increasing demand for maintenance-free alternatives to single-family homes. This trend is expected to support the potential demand for medium to high density housing in a Downtown environment.
- Young seniors (those ages 65 to 74) are projected to increase by 6,775 people or 47%, between 2010 and 2020. The growing senior population and an increasing acceptance of senior housing options are creating strong demand for senior housing. Seniors are a primary market for Downtown housing because of their desire to be close to goods and services.
- More people now are living alone than ever before and married couples without children and single person households are the two largest household types in the Market Area. Development of housing products that fit the needs of active adults in a Downtown environment can bring more people to the Downtown that would consider the Downtown their "neighborhood."
- Changing demographics and housing preferences are creating demand for additional multi-family housing however, most communities in the Market Area discourage high-density housing, particularly rental housing. The proportion of renter households in the area increased in each age cohort during the 2000s except for those ages 65 or older.

Rental Market Analysis

Introduction

This section provides an overview of the rental market situation in the Market Area. Overall, vacancy and average monthly rents for selected communities in and near the Market Area were examined, using data from the Marquette Advisors Metro Trends Report. This data provides insight regarding the demand for new rental product in the area. Maxfield Research Inc. also analyzed the performance of existing older and newer apartment product in Mound and surrounding communities, looking at buildings' ages, unit mixes, sizes, monthly rents and vacancy rates as of 1st Quarter 2013.

Monthly Rent and Vacancy Trends

A summary of average monthly rents and vacancy rate data was obtained from Marquette Advisors: *Apartment Trends* and was available for the following submarkets: *Wayzata/Mound and Excelsior/Spring Park*. Table 9 presents overall vacancy and monthly rents for 1st Quarter 2013 and an average rent increase for the previous 12 months. The following are key points from the table.

- The equilibrium vacancy rate for rental housing is considered to be 5.0%. This allows for normal turnover and an adequate supply of alternatives for prospective renters. During the 1st Quarter of 2013, the apartment vacancy rate in the selected Market Area communities was 2.5% in Wayzata/Mound and 2.5% in Excelsior/Spring Park. The vacancy rate in the Twin Cities was 2.8%. In effect, the supply of rental housing is currently inadequate to meet demand. The vacancy rate in the Wayzata/Mound submarket has decreased from 4.3% two years ago to its current 2.5% primarily because of higher housing foreclosures and a higher proportion of households choosing rental housing because of a concern about housing values and home appreciation.
- There remains some shortage of units affordable to moderate income households. The vacancy rates for units in the Twin Cities Metro Area with monthly rents below \$900 range from a low of 1.7% to 2.5%, while vacancy rates among units with rents above \$900 range from 2.7% to 4.7%. Also there is demand for new product types, where none have been built for many years.

TABLE 9 AVERAGE RENTS/VACANCIES AMONG MARKET AREA SUBMARKETS 1ST QUARTER 2013								
Community	Studio	1BR	1BR/D	2BR	2BR/D	3BR	Total	Ave. Rent Increase
Wayzata/Mound								
Rent	----	\$737	---	\$909	----	\$1,284	\$828	6.1%
Vacancy Rate	----	2.8%	---	2.5%	----	0.0%	2.5%	
Excelsior/Spring Park								
Rent	\$641	\$713	---	\$846	----	---	\$781	-2.4%
Vacancy Rate	7.7%	2.2%	---	3.3%	----	---	2.8%	
Twin Cities Metro Area								
Rent	\$727	\$843	\$1,159	\$1,048	\$1,474	\$1,332	\$966	3.3%
Vacancy Rate	2.8%	2.4%	3.0%	3.0%	4.3%	3.1%	2.8%	
Sources: Marquette Advisors; Maxfield Research Inc.								

- The average monthly rents in the Market Area as of 1st Quarter 2013 were approximately \$641 for studio units, \$713 to \$737 for one-bedroom units, \$846 to \$909 for two-bedroom units, and \$1,284 for three-bedroom units. Overall, these rents are below the Metro averages (\$843 for one-bedroom units, \$1,048 for two-bedroom units and \$1,332 for three-bedroom units). Rents are modestly higher in the Wayzata/Mound submarket and overall rents in Wayzata are higher than Mound, but not substantially. Each of the submarkets has a predominantly older supply of rental housing which has resulted in lower average rents. The Mist in Spring Park is the newest rental property and has much higher rents. It has been successful in renting up units and we believe that there is additional demand in Mound and the surrounding area for new rental units.
- Average monthly rents in the Market Area communities increased by 6.1% in the Wayzata/Mound submarket. Rents decreased slightly in the Excelsior/Spring Park submarket by 2.4%. In the Twin Cities Metro Area, rents increased by 3.3%. With vacancy rates below market equilibrium (5%), rental rates are anticipated to increase.

Rental Housing Survey

Table 10 presents information on year built, number of units, and vacancies by unit type for market rate, general occupancy rental projects in the Market Area. The majority of these properties are older and rent levels reflect this. There is one new property, The Mist, where units are being rented. This property is shown separately from the others because of its higher rent levels. Properties that are older and whose rents are clustered within a narrower rent range are grouped together on the table. The table shows monthly rents and units sized by unit type for the selected rental projects. The information was obtained by Maxfield Research Inc. The following are key points derived from the rental housing survey.

TABLE 10
COMPETITIVE RENTAL DEVELOPMENTS
MOUND MARKET AREA
April 2013

Projects	City	Year Built	Total Units	Units Vacant	Vac. Rate	Avg. Rent	Avg. Unit Size	Avg. \$/Sq. Ft.
Grandview Terrace	Mound	1972	88	2	2.3%	\$722	821	\$0.88
Royal Apts.	Mound	1970	12	0	0.0%	\$515	550	\$0.94
Shoreline Place	Mound	1971	36	2	5.6%	\$612	705	\$0.87
Bayview Apartments	Spring	1971	100	3	3.0%	\$844	943	\$0.90
Shoreview Apartments	Spring	1969	51	0	0.0%	\$773	852	\$0.91
Parkshore Apts.	Spring	1970	126	2	1.6%	\$730	795	\$0.92
Minnetonka Edgewater	Spring	1965	89	2	2.2%	\$957	851	\$1.12
Lord Fletchers Apartments	Spring	1973	88	1	1.1%	\$580	615	\$0.94
Christmas Lake Manor	Excel	1970	82	2	2.4%	\$742	777	\$0.95
Tonka Manor	Excel	1973	14	1	7.1%	\$677	721	\$0.94
Excelsior Manor	Excel	1972	47	1	2.1%	\$827	880	\$0.94
Excelsior Apartments	Excel	1950	44	1	2.3%	\$772	768	\$1.01
Tonkaway	Excel	1974	72	1	1.4%	\$788	1,000	\$0.79
Park Island	Spring	1984	156	4	2.6%	\$770	829	\$0.93
Excelsior Lakes Apts.	Excel	1951	44	1	2.3%	\$735	788	\$0.93
Bay Pointe Apts.	Excel	1972	80	4	5.0%	\$802	757	\$1.06
Wayzata Woods	Wayz	1965	108	1	0.9%	\$874	937	\$0.93
Gleason Lake	Wayz	1973	77	1	1.3%	\$1,218	873	\$1.40
Highcroft Manor	Wayz	1963	41	2	4.9%	\$888	920	\$0.97
Parkview Place	Wayz	1970	30	0	0.0%	\$735	773	\$0.95
Wayzata Lake	Wayz	1947	42	1	2.4%	\$845	897	\$0.94
Highland Apartments	Wayz	1965	30	0	0.0%	\$712	768	\$0.93
Underhill Apartments	Wayz	1965	10	0	0.0%	\$665	675	\$0.99
Wayzata Terrace	Wayz	1965	36	0	0.0%	\$744	950	\$0.78
Glenbrook Apartments	Wayz	1970	12	0	0.0%	\$888	848	\$1.05
TOTAL/AVERAGE			1,515	32	2.1%	\$794	828	\$0.96
The Mist	Spring	2005	101	4	0.0%	\$2,066	1,716	\$1.20

Source: Maxfield Research, Inc.

- As mentioned, the newest market rate project in the Housing Market Area is The Mist which opened in 2005. This property was originally being sold as a condominium, but was converted to rental when the housing market experienced a substantial downturn. Other than The Mist, there are no other new rental properties in the vicinity of Mound. There are some properties in Wayzata that were originally developed as condominiums that are also being rented at this time. Most of those units are large with rents exceeding \$2,000 per month. Most of the properties on Table 10 were built in the 1970s and late 1960s.

HOUSING MARKET ANALYSIS

- In total, the rental survey includes 1,616 units and among 26 projects surveyed, 36 units were vacant, for a vacancy rate of 2.2%. This is slightly lower than the Market Area's overall 2.6% vacancy rate (calculated from Table 9), but the difference is not significant. As mentioned earlier, the industry standard equilibrium vacancy rate for rental housing is 5.0%. This allows for normal turnover and an adequate supply of alternatives for prospective renters. To achieve a market equilibrium vacancy rate of 5.0%, an additional 55 units would need to become vacant in Market Area projects.
- The average monthly rent at the properties surveyed was \$794 for 828 square feet or \$0.96 per square foot. Table 11 shows average monthly rents by unit type at:

Studio	\$450
1BR	\$736
1B+Den	\$860
2BR	\$893
3BR	\$1,276

Rents at The Mist are substantially higher than the average rents at most properties in the Market Area. Rent levels at The Mist range from \$1,400 for a one-bedroom unit to \$3,350 for a two-bedroom plus den unit or an average of \$1.20 per square foot overall. Unit sizes are generally larger at The Mist because of its development as a condominium. A new rental property would require per square foot rents to be somewhat higher than what is currently being charged in the Market Area, about \$1.40 to \$1.50 per square foot. This is usually achieved through somewhat smaller unit sizes but the addition of a significant amenity package to support the higher rent levels.

HOUSING MARKET ANALYSIS

TABLE 11 UNIT MIX, SIZES, AND MONTHLY RENTS MARKET RATE RENTAL DEVELOPMENTS MOUND MARKET AREA April 2013									
Projects	Year Built	City	No. Units	Monthly Rent		Unit Size (Sq. Ft.)		Rent per Sq. Footage	
				Range	Avg.	Range	Avg.	Range	Avg.
STUDIO UNITS									
Royal Apts.	1957	Mound	4	\$445 - \$445	\$445	400 - 500	450	\$1.11 - \$0.89	\$0.99
Bayview Apartments	1971	Spring	8	\$700 - \$700	\$700	676 - 676	676	\$1.04 - \$1.04	\$1.04
Minnetonka Edgewater	1965	Spring	3	\$590 - \$590	\$590	524 - 524	524	\$1.13 - \$1.13	\$1.13
Christmas Lake Manor	1970	Excel	3	\$625 - \$650	\$638	500 - 500	500	\$1.25 - \$1.30	\$1.28
Tonka Manor	1973	Excel	2	\$525 - \$555	\$540	550 - 550	550	\$0.95 - \$1.01	\$0.98
Wayzata Lake Apts.	1947	Wayz	1	\$700 - \$735	\$718	500 - 500	500	\$1.40 - \$1.47	\$1.44
Highland Apartments	1965	Wayz	6	\$615 - \$625	\$620	600 - 650	625	\$1.03 - \$0.96	\$0.99
			27	\$445 - \$735	\$450	400 - 676	421	\$0.95 - \$1.47	\$1.07
ONE-BEDROOM UNITS									
Grandview Terrace	1972	Mound	64	\$655 - \$710	\$683	750 - 750	750	\$0.87 - \$0.95	\$0.91
Royal Apts.	1957	Mound	8	\$550 - \$550	\$550	600 - 600	600	\$0.92 - \$0.92	\$0.92
Shoreline Place	1970	Mound	6	\$529 - \$529	\$529	607 - 607	607	\$0.87 - \$0.87	\$0.87
Bayview Apartments	1971	Spring	55	\$785 - \$785	\$785	767 - 767	767	\$1.02 - \$1.02	\$1.02
Shoreview Apartments	1969	Spring	15	\$625 - \$695	\$660	700 - 700	700	\$0.89 - \$0.99	\$0.94
Parkshore Apts.	1970	Spring	71	\$625 - \$695	\$660	650 - 700	675	\$0.96 - \$0.99	\$0.98
Minnetonka Edgewater	1965	Spring	50	\$700 - \$910	\$805	654 - 758	706	\$1.07 - \$1.20	\$1.14
Lord Fletchers Apartments	1973	Spring	2	\$645 - \$795	\$720	800 - 800	800	\$0.81 - \$0.99	\$0.90
Christmas Lake Manor	1970	Excel	64	\$725 - \$725	\$725	750 - 750	750	\$0.97 - \$0.97	\$0.97
Tonka Manor	1973	Excel	9	\$675 - \$675	\$675	700 - 700	700	\$0.96 - \$0.96	\$0.96
Excelsior Manor	1972	Excel	11	\$750 - \$750	\$750	750 - 750	750	\$1.00 - \$1.00	\$1.00
Excelsior Apartments	1950	Excel	24	\$685 - \$725	\$705	650 - 700	675	\$1.05 - \$1.04	\$1.04
Park Island	1984	Spring	117	\$650 - \$795	\$723	750 - 800	775	\$0.87 - \$0.99	\$0.93
Excelsior Lakes Apts.	1951	Excel	22	\$685 - \$685	\$685	750 - 750	750	\$0.91 - \$0.91	\$0.91
Bay Pointe Apts.	1972	Excel	34	\$725 - \$785	\$755	675 - 700	688	\$1.07 - \$1.12	\$1.10
Wayzata Woods	1965	Wayz	51	\$790 - \$810	\$800	790 - 790	790	\$1.00 - \$1.03	\$1.01
Gleason Lake	1973	Wayz	38	\$900 - \$1,030	\$965	790 - 790	790	\$1.14 - \$1.30	\$1.22
Highcroft Manor	1963	Wayz	12	\$685 - \$815	\$750	600 - 850	725	\$1.14 - \$0.96	\$1.03
Parkview Place	1970	Wayz	18	\$695 - \$695	\$695	630 - 679	655	\$1.10 - \$1.02	\$1.06
Wayzata Lake	1947	Wayz	9	\$750 - \$775	\$763	600 - 800	700	\$1.25 - \$0.97	\$1.09
Highland Apartments	1965	Wayz	18	\$695 - \$725	\$710	750 - 775	763	\$0.93 - \$0.94	\$0.93
Underhill Apartments	1965	Wayz	10	\$665 - \$665	\$665	650 - 700	675	\$1.02 - \$0.95	\$0.99
Wayzata Terrace	1965	Wayz	18	\$650 - \$725	\$688	800 - 900	850	\$0.81 - \$0.81	\$0.81
Glenbrook Apartments	1970	Wayz	7	\$775 - \$850	\$813	740 - 740	740	\$1.05 - \$1.15	\$1.10
			733	\$529 - \$1,030	\$736	600 - 900	738	\$0.87 - \$1.20	\$1.00
The Mist	2005	Spring	11	\$1,300 - \$1,500	\$1,400	973 - 1,055	1,014	\$1.34 - \$1.42	\$1.38
ONE-BEDROOM-PLUS-DEN UNITS									
Park Island	1984	Spring	4	\$860 - \$860	\$860	900 - 900	900	\$0.96 - \$0.96	\$0.96
			4	\$860 - \$860	\$860	900 - 900	900	\$0.96 - \$0.96	\$0.96
The Mist	2005	Spring	36	\$1,500 - \$1,800	\$1,650	1,256 - 1,302	1,279	\$1.19 - \$1.38	\$1.29
Source: Marquette Advisors; Maxfield Research, Inc.									

Source: Marquette Advisors; Maxfield Research, Inc.

HOUSING MARKET ANALYSIS

TABLE 11 (cont.) UNIT MIX, SIZES, AND MONTHLY RENTS MARKET RATE RENTAL DEVELOPMENTS MOUND MARKET AREA April 2013									
Projects	Year Built	City	No. Units	Monthly Rent		Unit Size (Sq. Ft.)		Rent per Sq. Footage	
				Range	Avg.	Range	Avg.	Range	Avg.
TWO-BEDROOM UNITS									
Grandview Terrace	1972	Mound	24	\$820 - \$835	\$828	1,010 - 1,010	1,010	\$0.81 - \$0.83	\$0.82
Shoreline Place	1970	Mound	30	\$629 - \$629	\$629	725 - 725	725	\$0.87 - \$0.87	\$0.87
Bayview Apartments	1971	Spring	26	\$905 - \$905	\$905	1,100 - 1,180	1,140	\$0.82 - \$0.77	\$0.79
Shoreview Apartments	1969	Spring	36	\$745 - \$895	\$820	915 - 915	915	\$0.81 - \$0.98	\$0.90
Parkshore Apts.	1970	Spring	55	\$745 - \$895	\$820	900 - 1,000	950	\$0.83 - \$0.90	\$0.86
Minnetonka Edgewater	1965	Spring	36	\$1,050 - \$1,345	\$1,198	990 - 1,169	1,080	\$1.06 - \$1.15	\$1.11
Lord Fletcher's Apartments	1973	Spring	50	\$835 - \$1,150	\$993	1,000 - 1,100	1,050	\$0.84 - \$1.05	\$0.95
Christmas Lake Manor	1970	Excel	15	\$825 - \$850	\$838	950 - 950	950	\$0.87 - \$0.89	\$0.88
Tonka Manor	1973	Excel	3	\$750 - \$800	\$775	900 - 900	900	\$0.83 - \$0.89	\$0.86
Excelsior Manor	1972	Excel	36	\$825 - \$875	\$850	920 - 920	920	\$0.90 - \$0.95	\$0.92
Excelsior Apartments	1950	Excel	22	\$775 - \$775	\$775	750 - 850	800	\$1.03 - \$0.91	\$0.97
Tonkaway Apts.	1974	Excel	72	\$750 - \$825	\$788	1,000 - 1,000	1,000	\$0.75 - \$0.83	\$0.79
Park Island	1984	Spring	35	\$890 - \$950	\$920	1,000 - 1,000	1,000	\$0.89 - \$0.95	\$0.92
Excelsior Lakes Apts.	1951	Excel	22	\$785 - \$785	\$785	825 - 825	825	\$0.95 - \$0.95	\$0.95
Bay Pointe Apts.	1972	Excel	46	\$800 - \$875	\$838	795 - 820	808	\$1.01 - \$1.07	\$1.04
Wayzata Woods	1965	Wayz	51	\$890 - \$910	\$900	1,035 - 1,035	1,035	\$0.86 - \$0.88	\$0.87
Gleason Lake	1973	Wayz	34	\$1,430 - \$1,440	\$1,435	895 - 895	895	\$1.60 - \$1.61	\$1.60
Highcroft Manor	1963	Wayz	29	\$895 - \$995	\$945	1,000 - 1,000	1,000	\$0.90 - \$1.00	\$0.95
Parkview Place	1970	Wayz	12	\$795 - \$795	\$795	950 - 950	950	\$0.84 - \$0.84	\$0.84
Wayzata Lake	1947	Wayz	32	\$850 - \$895	\$873	800 - 1,130	965	\$1.06 - \$0.79	\$0.90
Highland Apartments	1965	Wayz	6	\$795 - \$825	\$810	900 - 950	925	\$0.88 - \$0.87	\$0.88
Wayzata Terrace	1965	Wayz	18	\$750 - \$850	\$800	1,000 - 1,100	1,050	\$0.75 - \$0.77	\$0.76
Glenbrook Apartments	1970	Wayz	5	\$975 - \$1,010	\$993	1,000 - 1,000	1,000	\$0.98 - \$1.01	\$0.99
			695	\$629 - \$1,440	\$893	725 - 1,180	958	\$0.81 - \$1.15	\$0.93
The Mist	2005	Spring	42	\$1,800 - \$3,500	\$2,650	1,637 - 1,999	1,818	\$1.10 - \$1.75	\$1.46
TWO-BEDROOM-PLUS-DEN AND THREE-BEDROOM UNITS									
Bayview	1971	Spring	11	\$1,100 - \$1,100	\$1,100	1,550 - 1,550	1,550	\$0.71 - \$0.71	\$0.71
Wayzata Woods	1965	Wayz	6	\$1,250 - \$1,300	\$1,275	1,350 - 1,350	1,350	\$0.93 - \$0.96	\$0.94
Gleason Lake	1973	Wayz	5	\$1,635 - \$1,690	\$1,663	1,350 - 1,350	1,350	\$1.21 - \$1.25	\$1.23
			22	\$1,250 - \$1,690	\$1,276	1,350 - 1,350	1,450	\$0.93 - \$1.25	\$0.88
The Mist	2005	Spring	12	\$2,300 - \$4,000	\$3,150	1,750 - 2,978	2,364	\$1.31 - \$1.34	\$1.33
Sources: Marquette Advisors; Maxfield Research, Inc.									

Sources: Marquette Advisors; Maxfield Research, Inc.

Vacancy Rates

Table 12 shows vacancies for the market rate rental properties surveyed in the Housing Market Area. The table identifies a total of 36 units as vacant among the properties for an overall vacancy rate of 2.2%, significantly below the 5% level considered to be market equilibrium. The market equilibrium rate of 5% is a level that allows for balanced market conditions where there is sufficient consumer choice and adequate turnover. Levels below 5% indicate that pent-up demand exists for additional rental units in the market.

HOUSING MARKET ANALYSIS

TABLE 12
VACANCIES BY UNIT TYPE
EXISTING RENTAL DEVELOPMENTS
MOUND MARKET AREA
April 2013

Projects	Vacant Units						Totals
	Studio	1BR	1BR+D	2BR	2BR+D	3BR	
Grandview Terrace	---	1	---	1	---	---	2
Royal Apts.	0	0	---	---	---	--	0
Shoreline Place	--	1	---	1	---	--	2
Bayview Apartments	1	1	--	1	0	--	3
Shoreview Apartments	---	0	---	0	---	---	0
Parkshore Apts.	---	1	---	1	---	---	2
Minnetonka Edgewater	0	1	---	1	---	--	2
Lord Fletchers Apartments	---	1	---	0	---	---	1
Christmas Lake Manor	0	0	----	2	----	----	2
Tonka Manor	0	0	---	1	---	---	1
Excelsior Manor	---	0	---	1	---	---	1
Excelsior Apartments	---	1	---	0	---	---	1
Tonkaway	----	----	----	1	----	----	1
Park Island	----	2	0	2	----	----	4
Excelsior Lakes Apts.	----	1	----	0	----	----	1
Bay Pointe Apts.	----	2	----	2	----	----	4
Wayzata Woods	---	1	---	0	---	0	1
Gleason Lake	---	0	---	1	---	0	1
Highcroft Manor	---	1	---	1	---	----	2
Parkview Place	---	0	---	0	---	----	0
Wayzata Lake	0	0	---	1	---	----	1
Highland Apartments	0	0	---	0	---	----	0
Underhill Apartments	---	0	---	---	---	----	0
Wayzata Terrace	---	0	---	0	---	----	0
Glenbrook Apartments	---	0	---	0	---	----	0
Total	1	14	0	17	0	0	32
Total Units	20	733	4	508	11	11	1,287
Vacancy Rate (overall)	5.0%	1.9%	0.0%	3.3%	0.0%	0.0%	2.5%
The Mist	---	2	0	2	0	0	4
Total Units	---	11	36	42	10	2	101
Vacancy Rate Overall	N/A	18.2%	0.0%	4.8%	0.0%	0.0%	4.0%

Source: Maxfield Research, Inc.

Pending Rental Developments

The following is a list of general-occupancy rental projects in the planning process or under construction in the Market Area. This information was gathered through interviews with City officials in each of the Market Area communities and with project developers.

- Currently, a local real estate developer is considering the development of market rate rental units on a site located in Downtown Wayzata. The project is in the conceptual planning stages and no formal proposal has been made to the City. The property would feature a high level of amenities with views of Lake Minnetonka from some of the units. Total project size is expected to range from about 80 to 150 units.

For-Sale Housing Market Situation

Introduction

This section provides an overview of the for-sale housing market situation in the Housing Market Area. Included are an evaluation of single-family and multifamily home resales and an overview of active developments and an inventory of pending developments. Maxfield Research analyzed housing resale data for the Market Area communities from the Regional Multiple Listing Service (MLS) for the years 2009 through May 2013.

Single-Family Home Resales

Tables 13 and 14 show home resale activity for non-lakefront and lakefront homes in the Housing Market Area from 2009 through May 2013. Despite a little less than a half year for 2013, sales have increased proportionally in 2013. Mound, especially, has experienced considerable market activity in single-family home sales during this period. Although Mound continues to perform well within the overall Housing Market Area, the lower price of homes, on average, in Mound is definitely attracting buyers to the community.

TABLE 13 LAKE FRONT HOME SALES MOUND STUDY AREA 2009 through 2013									
	Number		Avg Sold Price		DOM		Avg SF		Avg Yr Blt.
MOUND									
2009	45		\$	560,904		98		2,556	1967
2010	43		\$	534,209		98		2,666	1966
2011	34		\$	551,767		166		2,865	1961
2012	35		\$	479,894		113		2,465	1960
2013	26		\$	482,325		108		2,944	1975
TOTAL-HOUSING MARKET AREA									
2009	116		\$	1,052,854		111		3,933	1967
2010	120		\$	1,038,473		128		3,725	1969
2011	119		\$	1,014,697		169		3,882	1972
2012	165		\$	929,356		126		3,413	1966
2013	85		\$	740,903		119		3,662	1978
Note: Sales for 2013 through May 31, 2013									
Sources: Northstar MLS, Maxfield Research Inc.									

The average sale price of homes that have lakeshore or lake frontage is about \$300,000 less in than non-lakefront property. In Mound through May 2013, 26 homes sold with lake frontage and 56 homes sold without lake frontage. Mound's total sales accounted for 31% of lake front property and 27% of non-lakefront property. The average price for non-lakeshore property in Mound escalated dramatically.

Except for minimal fluctuations, time on market (the number of days to sell a home) in the Housing Market Area overall and in Mound has generally decreased.

TABLE 14 NON-LAKE FRONT HOME SALES MOUND STUDY AREA 2009 through 2013						
	Number	Avg Sold Price	DOM	Avg SF	Avg Yr Blt.	
MOUND						
2009	98	\$ 169,658	78	1,743	1962	
2010	95	\$ 176,401	76	1,916	1969	
2011	89	\$ 151,765	82	1,791	1964	
2012	118	\$ 144,095	81	1,681	1960	
2013	56	\$ 312,605	79	2,445	1968	
TOTAL-HOUSING MARKET AREA						
2009	359	\$ 359,348	98	2,686	1974	
2010	345	\$ 361,674	92	2,742	1973	
2011	351	\$ 369,828	98	2,809	1971	
2012	442	\$ 350,076	88	2,735	1972	
2013	210	\$ 484,526	102	2,985	1972	
Note: Sales for 2013 through May 31, 2013						
Sources: Northstar MLS, Maxfield Research Inc.						

Multifamily Resales

Tables 15 and 16 present summary data for multifamily housing units in the Housing Market Area from 2009 through May 2013. The tables are separated between developments that have lake frontage and those that do not. The tables show the number of units sold each year, the median sale price, and average number of days on the market according to the Regional Multiple Listing Service (MLS).

- Resale data is shown for Mound, Orono, Excelsior, Shorewood, Tonka Bay, Spring Park, and St. Bonifacius.
- The table shows lakefront sales and non-lakefront multifamily home sales. Overall, the average median sale price of for-sale multifamily units in the Housing Market Area over the period 2009 through May 2013 was \$343,605. The average time on market was 100 days and the average year built was 1986. As shown on the table, the average price of lakefront units sold in Mound during the period was \$219,622, lower than all other communities listed on the table. However, the average size of units was also the smallest.
- The average square feet of multifamily units sold in the Housing Market Area is nearly the same average as that for single-family homes. This suggests that households that are “rightsizing” in this area tend to prefer a unit size that is only modestly less than their existing single-family home.

TABLE 15 LAKEFRONT MULTIFAMILY HOME SALES MOUND STUDY AREA 2009 through 2013					
	Number	Avg Sold Price	DOM	Avg SF	Avg Yr Blt.
Excelsior	12	\$ 418,041	108	1,506	1977
Mound	57	\$ 219,622	138	1,566	1979
Orono	3	\$ 380,167	66	2,485	1989
Shorewood	16	\$ 369,222	72	3,041	1985
Spring Park	39	\$ 310,576	158	1,755	1998
Tonka Bay	5	\$ 364,000	58	2,330	1986
Total	132	\$ 343,605	100	2,114	1986
<i>Note: Sales for 2013 through May 31, 2013</i>					
Sources: Northstar MLS, Maxfield Research Inc.					

TABLE 16 NON-LAKEFRONT MULTIFAMILY SALES MOUND STUDY AREA 2009 through 2013					
	Number	Avg Sold Price	DOM	Avg SF	Avg Yr Blt.
Excelsior	4	\$ 474,000	130	1,619	2005
Mound	17	\$ 139,859	174	1,773	2002
Orono	29	\$ 233,290	116	2,073	2000
Shorewood	85	\$ 325,300	112	2,840	1989
Spring Park	2	\$ 256,500	53	2,105	1995
St. Bonifacius	49	\$ 96,034	77	1,319	1998
Tonka Bay	2	\$ 455,000	451	3,251	1995
Total	188	\$ 282,855	159	2,140	1998
<i>Note: Sales for 2013 through May 31, 2013</i>					
Sources: Northstar MLS, Maxfield Research Inc.					

- Despite the older price points, resales of existing multifamily units are increasing. New units however are likely to be about \$100,000 to \$150,000 higher than what is currently re-selling in the market. New condominium units at The Regatta are reported to be pre-selling well at per square foot prices of \$450.
- Over the period, 132 lakefront units and 188 non-lakefront multifamily units were sold in the communities that comprise the Mound Housing Market Area. The average price of lakefront properties sold was \$343,605 and the average price of non-lakefront properties sold was \$282,855. Mound had 57 lakefront multifamily units sold, primarily in Lakewinds and Seahorse condominiums, both of which are older properties, but very popular. Of the non-lakefront properties, 17 were sold.
- The average number of days from when a unit was listed for sale until it sold (time on the market) was 100 for lakefront properties and 159 for non-lakefront properties. Multifamily units, despite their usual lower price point suffered substantially during the housing market downturn as many buyers opted to purchase single-family homes when they became more affordable. Time on market remains much higher than before the housing market downturn when multifamily product was selling in an average of about 30 days. Time on market however, has decreased modestly throughout the Twin Cities as the housing market strengthens. We expect that prices will begin to rise and time on market will decrease as there is limited supply, increasing demand and continue low mortgage interest rates.

Selected For-Sale Multifamily Housing Developments

Maxfield Research Inc. gathered information on resales at selected townhome and condominium developments in the Housing Market Area. Information is also provided on units that are currently pre-selling at Regatta Wayzata Bay being developed by Bohland Homes. Table 17 presents information on these developments, collected from the Multiple Listing Service, including

the date the development opened, the number of units available, average unit size, average sales price, and average market time.

- Of the six projects inventoried, three are upper-end product (St. Albans Bay Villa, Willoughby and Windpoint Villas) and three are entry-level to move-up product. Prices for the upper-end product range from the low \$400,000s for two-bedroom units up to over \$1 million. The entry-level to move-up products have prices that range from \$150,000 for one-bedroom units to \$290,000 for two-bedroom units.
- Overall, properties that have water views or are close to the water and are newer have prices that range from about \$250,000 to \$500,000. If units are to be located in the Mound Harbor Renaissance District, most units should be priced generally within these guidelines with units that have the best views priced at a premium. Units that face the water should be move-up or units that would be purchased primarily by those seeking an alternative to a single-family home. Entry-level units would need to have a higher density to support a lower price point and could be situated off the lake.
- Per square foot price points for entry level units (not on the lake) would range from about \$120 to \$150 per square foot. Per square foot price points for move-up units would range from about \$200 to \$250 per square foot.
- The number of multifamily units sold has generally been less than the number of single-family sales. During the housing market downturn, a portion of the market that was interested in multifamily housing because of its greater affordability turned back to single-family homes because of greater pricing stability and greater affordability after the home price deflation. Home mortgage interest rates have decreased further making single-family homes more affordable and more accessible to homebuyers. We continue however to see that multifamily units generally offer buyers greater lifestyle flexibility.

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TABLE 17
RESALE PRICES FOR NEW AND EXISTING CONDOMINIUM AND TOWNHOME UNITS
SELECTED FOR-SALE MULTIFAMILY DEVELOPMENTS
MOUND MARKET AREA
April 2013

Project Name/ Location	Year Built	Number of Units	Type	Types of Units	Square Feet	Most Recent Sales Price	Price Per Square Foot
Regatta Wayzata Bay Wayzata (New Construction)	2014	58	Condo	2 - 1BR	750 - 850	\$337,500 - \$382,500	\$450 - \$450
				16 - 1BR+D	1,030 - 2,250	\$463,500 - \$1,012,500	\$450 - \$450
				3 - 2BR	1,430 - 1,740	\$643,500 - \$783,000	\$450 - \$450
				32 - 2BR+D	1,610 - 2,870	\$724,500 - \$1,291,500	\$450 - \$450
				5 - Custom	2,140 - 4,110	\$963,000 - \$1,849,500	\$450 - \$450
Chapman Place Mound	1985	25	Condo	1BR	986 - 1,088	\$135,000 - \$185,000	\$137 - \$188
				2BR	1,186 - 1,465	\$169,000 - \$450,000	\$142 - \$307
				3BR	1,415	\$200,000	\$141
Villas on Lost Lake Mound	2006	9	Town- homes	2BR	1,997 - 2,414	\$205,000 - \$270,000	\$112 - \$103
Port Harrison Mound	1985	4	Town- homes	3BR	1,847 - 2,625	\$290,000 - \$375,000	\$143 - \$157
Pelican Point Mound	1995	40	Town- homes	3BR	3,197 - 3,662	\$510,000 - \$700,000	\$160 - \$191
				4BR	3,339	\$469,500	\$141
The Village by the Bay Mound	2003	40	Condo	2BR+D	1,651 - 1,830	\$135,000 - \$149,900	\$82 - \$82
		59	Town- homes	2 BR	1,360 - 1,945	\$109,000 - \$131,000	\$80 - \$67
				3 BR	1,745 - 1,997	\$105,000 - \$132,800	\$60 - \$66
Source: Maxfield Research Inc.							

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- Most empty nesters have a strong preference for one-level units or units with elevator access. Many are moving from single-family homes and want to eliminate stairs. Some younger buyers are interested in one-level units, but most prefer two-level floor plans. One-level townhomes marketed toward empty-nesters typically command a much higher price than two-story townhomes marketed towards younger households or condominium projects.
- Older buyers are especially attracted to association-maintained townhomes when they are no longer able to or desire to maintain a yard and the exterior of their single-family homes. Many young to middle age buyers are also opting for townhomes for the same reason. Many buyers simply do not have time to maintain a single-family home due to their career or other reasons.

Pending For-Sale Developments

- Regatta Wayzata Bay is proposed to have 58 units and will be located above retail shops in the new Wayzata Bay development in Downtown Wayzata. Unit types available include one-bedroom, one-bedroom plus den, two-bedroom, two-bedroom plus den and a few custom units. Unit sizes range from 750 square feet for a one-bedroom unit to 4,110 square feet for a custom penthouse. Pricing averages \$450 per square foot. The builder is Bohland Homes. Presales are currently underway.
- Mark Saliterman is planning to develop 16 townhomes in Mound Harbor Renaissance District, finishing out the Lost Lake Villas development. Units will face the Lost Lake Channel and will be similar to the existing townhomes that are built and occupied. The townhomes are expected to sell for between \$350,000 to \$450,000 each and the developer has already had interest from potential buyers for some of the units. Each unit will be provided with a private dock. A summer construction start is planned for the initial units.

Independent Senior Housing Analysis

Types of Senior Housing

For analytical purposes, Maxfield Research Inc. classifies senior projects into four categories based on the level and type of services offered:

Adult/Few-Services projects are similar to a general occupancy apartment or condominium building, in that they offer virtually no services but have age-restrictions (typically 55+ or older). Organized activities and transportation are usually all that are available at these projects. Because of the lack of services, adult/few-services projects typically do not command the rent premiums typical of more service-intensive senior housing.

Congregate projects (or independent living with services available) offer seniors support services such as meals and/or housekeeping, either optional or included in the monthly fee. These projects typically dedicate a larger share of the overall building area to common areas to accommodate for the smaller units and to encourage socialization. Congregate projects attract a slightly older target market than adult housing, typically seniors age 75+. Rents are above those of the adult/few-services buildings, even at the exclusion of services, because of the availability of services. Sponsorship by a nursing home, hospital, or other health care organization is common.

Assisted Living facilities come in a variety of forms, but the target market for most is very frail seniors, generally age 80 or older who are in need of extensive support services. Absent an assisted living option, these seniors may otherwise need to move to a nursing facility. At a minimum, assisted living projects include two meals per day and weekly housekeeping in the monthly fee, with the availability of a third meal and personal care (either included in the monthly fee or available for additional cost in tiered service packages or a-la-carte). Assisted living facilities also have either staff on duty 24 hours per day or 24-hour emergency response.

Some assisted living facilities offer self-contained dwelling units similar to a regular senior apartment with full kitchens and spacious rooms. Projects offering kitchens in the units may include only two meals per day while those without kitchens in the units generally provide three. Other projects do not have kitchens and are merely updated versions of board-and-care facilities with sleeping units and communal living spaces.

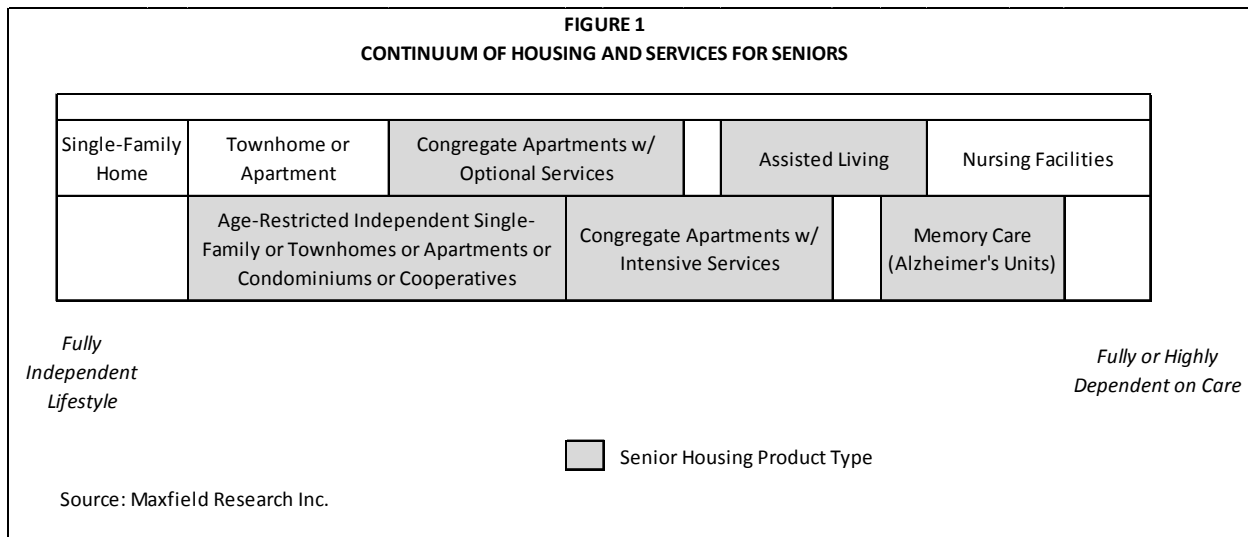
Monthly fees vary depending on the number and type of services included and the size of the units, but most facilities have fees starting at roughly \$2,800 per month. Because of the high cost of care, many facilities accept financial assistance through Elderly Waivers or other financial assistance programs.

Memory Care facilities are designed specifically for seniors suffering from Alzheimer's or other dementias. Projects will consist mostly of suite-style or studio apartment units and allocate large communal areas for activities and programming.

HOUSING MARKET ANALYSIS

In addition, staff personnel typically undergo specialized training in the care of this population. Because of the greater amount of individualized care required, staffing ratios are much higher than traditional assisted living. The costs of care are also higher. Monthly fees for memory care units typically start at about \$4,500 per month.

Unlike conventional assisted living, however, which deals almost exclusively with widows or widowers, a higher proportion of people afflicted with Alzheimer's are in two-person households. Therefore, the decision to move a spouse into a memory care facility involves the caregiver's concern of incurring the costs of health care at a special facility while continuing to maintain their home.



Today's senior housing products form a continuum of care from a purely residential level to intensive medical care. Often the services offered at these projects overlap with one another and make these definitions somewhat ambiguous. In general, however, distinctions in cliental are made within each type of facility.

Adult/few-services projects tend to attract younger, independent, and active seniors; congregate projects serve independent seniors who desire support services (i.e., meals, housekeeping, transportation, etc.); and assisted living projects tend to attract older, more frail seniors who need assistance with daily activities but do not need the intensive medical care provided by a skilled care facility.

The senior housing products offered today form a continuum of care (see above), from a low level of care to fairly intensive care; often, the service offerings of one type overlap with those of another. In general, however Adult/Few Services projects tend to attract younger, more independent seniors, while assisted living and memory care projects tend to attract older, frailer seniors.

HOUSING MARKET ANALYSIS

Table 18 shows an inventory of senior housing in the Market Area by the five product types described above. In total, there are 488 market rate senior housing units in the Market Area. Spring Park has the greatest senior housing supply, with 218 units, followed by Orono with 122 units. Properties in these communities are in closest proximity to Mound.

TABLE 18						
MARKET RATE SENIOR HOUSING SUPPLY						
MOUND HOUSING MARKET AREA						
April 2013						
City	Memory Care	Assisted Living	Congregate/ Service- Intensive	Congregate/ Optional Services	Adult/Few- Services	Total
Orono	19	43	0	0	60	122
Spring Park	0	52	0	166	0	218
Watertown	0	56	0	11	0	67
Wayzata	6	0	75	0	0	81
Total	25	151	75	177	60	488
Source: Maxfield Research Inc.						

A new senior continuum of care campus is currently under construction in Wayzata in the new Wayzata Bay development. Presbyterian Homes is developing *Folkstone* which will contain a total of 225 senior housing units and 30 beds of skilled nursing care. Groundbreaking for Folkestone was June 5, 2012 and the projected is slated to open November 2013.

The projects on the following table are those located in the Market Area and they include all service levels. Independent senior housing in Downtown Mound would provide for those that remain active but want to shed the responsibility of exterior upkeep and maintenance. It is this type of senior housing that we believe is best suited for the Downtown. Senior housing that offers services attracts a more frail population that would frequent downtown businesses less often. It should be noted that while congregate/optional-service projects would attract more independent seniors who would be able to frequent downtown businesses, there is, to some degree, a development trend away from this type of product. This is because uncertainty of service utilization makes staffing difficult and because the cost to provide services is sometimes greater than the revenue generated by the seniors who utilize them. Thus, most new projects that include services require residents to purchase a minimum amount of meals per month and also include limited housekeeping in the monthly fee. Seniors who are independent can move to adult/few-service projects, and if they need some housekeeping or personal care, they can contract through a private home health agency.

There are four senior properties in the Market Area with a total of 488 units. Service levels shown on the table include active adult, congregate, assisted living and memory care. The properties are shown on Table 19, along with the year they opened, total units, vacant units, average unit size, average price/rent, and building features and an estimated average age.

HOUSING MARKET ANALYSIS

TABLE 19
SENIOR HOUSING DEVELOPMENTS
IN & NEAR THE MOUND MARKET AREA
April 2013

Project/Location	Year Opened	Total Units	Vacant	Unit-Mix	Avg. Size	Avg. Price/Rent	Building features/ Resident Avg. Age
ACTIVE ADULT							
Orono Woods <i>Orono</i>	10/2002	60	25 41.7%	15 - 1BR 22 - 1BR/D 15 - 2BR 10 - 2BR/D	725 925 1,013 1,200	\$990 \$1,150 \$1,318 \$1,578	Community room, card room, library, underground parking for \$50/mo.; avg. age - 75
CONGREGATE							
Elim Meadows <i>Watertown</i>	6/1989	11	0 0.0%	5 - 1BR 6 - 2BR	685 810	\$840 \$955	Community room, craft/hobby room, dining, salon.; average age=85
The Court <i>Spring Park</i>	11/1988	92	0 0.0%	8 - 0 BR 54 - 1BR 30 - 2 BR	445 541 793	\$750 \$103 \$1,805	New Town Center with dining, chapel, salon, community room, library, billiards, resident garden, computer lab, Wings Wellness Ctr. Avg. age = 82
The Villa <i>Spring Park</i>	10/1996	65	0 0.0%	6 - 0 BR 46 - 1 BR 13 - 2BR	480 664 944	\$650 \$950 \$1,350	New Town Center with dining, chapel, salon, community room, library, billiards, resident garden, computer lab, Wings Wellness Ctr. Avg. age = 85
ASSISTED LIVING							
The Chateau <i>Spring Park</i>	5/2012	52	0 0.0%	- 0 BR - 1 BR - 2 BR	470 595 900	\$3,050 \$3,250 \$3,850	New Town Center with dining, chapel, salon, community room, library, billiards, resident garden, computer lab, Wings Wellness Ctr. Avg. age 85
Orono Trails <i>Orono</i>	10/2011	43	2 4.7%	13 - 0 BR 30 - 1 BR	356 631	\$3,025 \$3,450	Library, dining, theater, salon, lounge, outdoor patio, firepit, club room; avg. age=82
MEMORY CARE							
The Arbor <i>Spring Park</i>	5/2012	20	1 5.0%	12 - 0 BR 8 - 1 BR	470 570	\$4,800 \$5,500	New Town Center with dining, chapel, salon, community room, library, billiards, resident garden, computer lab, Wings Wellness Ctr. Avg. age 82
Orono Trails <i>Orono</i>	10/2011	19	0 0.0%	19 - 0BR	356	\$5,300	Library, dining, theater, salon, lounge, outdoor patio, firepit, club room; avg. age=82

Source: Maxfield Research Inc.

The following are key points about the projects in Table 19.

- There are limited vacancies among the properties listed on the table, signaling strong demand for senior housing in the area. Orono Trails opened only just a couple of years ago to serve frail seniors and offers assisted living and memory care. Presbyterian Homes and Services recently completed a large scale renovation of the Lake Minnetonka Shores campus in Spring Park and last year opened a memory care wing.
- Despite being marketed to active adults, most elevator-style buildings targeted to seniors attract seniors age 70 years or older. It is not unusual to see independent seniors residing in a building with an average age of 82. A number of seniors prefer to rent so they are free to travel to the Sunbelt or up north to a lake home or cabin.
- Orono Woods in Orono is the only adult few services development in the Market Area. The others range from a limited service component to extensive services that are provided in memory care facilities. The property includes a community room, card room, and library, it does not offer meals or other services and residents must be independent.

Pending Senior Developments

Within the Housing Market Area

As mentioned in the section, Presbyterian Homes is currently developing Folkestone, a full continuum of care senior living community in Downtown Wayzata at the Promenade of Wayzata. Folkestone – Phase I will feature 148 units of independent living, 58 units of assisted living, and 18 units of memory care. There will also be the addition of an amenities center that will incorporate dining areas, a conservatory, a theater, library, chapel and wellness center with swimming pool, spa and other amenities and services. Folkestone is expected to open November 2013.

Outside of the Housing Market Area

Church of St. Therese in Deephaven is also planning to develop senior housing on property that is adjacent to the Church. A total of 78 units is planned and will include independent living, assisted living and memory care. Financing is being arranged at this time and a fall construction start is contemplated.

Multifamily Housing Demand

Table 20 presents housing demand calculations for the Market Area between 2010 and 2020 and the estimated number of units supportable in Downtown Mound during this period. The following bullet points summarize our demand calculations.

- According to projections, the Market Area is expected to grow by an estimated 653 households between 2010 and 2020. Based on homeownership trends, an estimated 70% of the demand this decade will be for for-sale housing, resulting in demand for 457 for-sale units and 196 rental units. Since much of the Market Area is zoned only for single-family development, an estimated 40% of for-sale demand will be for multifamily units – resulting in overall demand for 183 for-sale multifamily units. It is estimated that all of the demand for rental housing will be multifamily units, or 196 rental units. We further adjust these figures to account for the portion of demand that would be market rate (80% for for-sale and 60% for rental).
- The demand figures in Table 20 are for the entire Market Area, and no one community would be able to capture all of the demand. We estimate that Downtown Mound could capture 35% to 40% of the for-sale multifamily demand (51 to 59 units) and 45% to 50% of the rental demand (53 to 59 units). In addition to demand from the Market Area, there would be some demand from outside of the Market Area. This would come from people who would move to Mound for a specific project or because of a lack of other options outside the Market Area. We project that 35% of the demand would come from outside of the Market Area, increasing total demand in Downtown Mound to 79 to 90 for-sale units and 81 to 90 market rate rental units.
- Overall we project that Downtown Mound could capture 80% of the for-sale demand and 100% of the rental demand in Mound this decade. Overall, we **project that Downtown Mound could support 63 to 72 for-sale multifamily units and 81 to 90 rental units.**
- As with some of the for-sale housing, new rental housing in the Downtown should be multi-story buildings. The greater number of units attainable in a multi-story building would maximize the impact on Downtown retail.

HOUSING MARKET ANALYSIS

TABLE 20
PROJECTED DEMAND FOR MARKET RATE MULTIFAMILY HOUSING
DOWNTOWN MOUND
2010 to 2020

	Total	For-Sale	Rental
Projected new housing unit demand from household growth, 2010 to 2020	653		
(times) Estimated ownership demand	x 70%		
(equals) Projected Market Area demand for new for-sale housing units	=	457	
(equals) Projected Market Area demand for new rental units	=		196
(times) Estimated percent of units that will be for multifamily	x	40%	100%
(equals) Projected study area demand for new multifamily housing units	=	183	196
(times) Proportion of study area demand for market rate multifamily	x	80%	60%
(equals) Projected study area demand for new market rate multifamily	=	146	118
(times) Estimated percent of demand capturable in Mound	x	35% - 40%	45% - 50%
(equals) Estimated demand in Mound from Market Area, 2010 to 2020	=	51 59	53 59
(plus) Demand from outside the Market Area (35%)	+	28 - 32	28 - 32
(equals) Total demand for multifamily housing in Mound	=	79 90	81 90
(times) Estimated percent supportable in Downtown	=	80%	100%
(equals) Units supportable in Downtown Mound		63 - 72	81 - 90

Source: Maxfield Research Inc.

Affordable Housing Demand

Table 21 presents a similar demand calculation for affordable for-sale and rental housing in Downtown Mound.

- According to our projections, the Market Area is expected to grow by an estimated 653 households between 2010 and 2020. Using similar calculations, we estimate that 20% of the potential demand for for-sale housing will be for affordable units and 40% of the demand for rental will be for affordable units.
- The demand figures in Table 21 are for the entire Market Area, and no one community would be able to capture all of the demand. We estimate that Downtown Mound could capture 35% to 40% of the for-sale multifamily demand (13 to 15 units) and 45% to 50% of the rental demand (35 to 39 units). In addition to demand from the Market Area, there would be some demand from outside of the Market Area. This would come from people who would move to Mound for a specific project or because of a lack of other options outside the Market Area. We project that 35% of the demand would come from outside of the Market Area, increasing total demand in Downtown Mound to 20 to 23 affordable for-sale units and 54 to 60 affordable rental units.

TABLE 21
PROJECTED DEMAND FOR MARKET RATE MULTIFAMILY HOUSING
DOWNTOWN MOUND
2010 to 2020

	Total	For-Sale	Rental
Projected new housing unit demand from household growth, 2010 to 2020	653		
(times) Estimated ownership demand	x 70%		
(equals) Projected Market Area demand for new for-sale housing units	=	457	
(equals) Projected Market Area demand for new rental units	=		196
(times) Estimated percent of units that will be for multifamily	x	40%	100%
(equals) Projected study area demand for new multifamily housing units	=	183	196
(times) Proportion of study area demand for affordable multifamily	x	20%	40%
(equals) Projected study area demand for new affordable multifamily	=	37	78
(times) Estimated percent of demand capturable in Mound	x	35% - 40%	45% - 50%
(equals) Estimated demand in Mound from Market Area, 2010 to 2020	=	13 - 15	35 - 39
(plus) Demand from outside the Market Area (35%)	+	7 - 8	19 - 21
(equals) Total demand for multifamily housing in Mound	=	20 - 23	54 - 60
(times) Estimated percent supportable in Downtown	=	80%	100%
(equals) Units supportable in Downtown Mound		16 - 18	54 - 60

Source: Maxfield Research Inc.

- Overall we project that Downtown Mound could capture 80% of the for-sale demand and 100% of the rental demand in Mound this decade. Overall, we **project that Downtown Mound could support 16 to 18 for-sale multifamily units and 54 to 60 rental units.**
- As with some of the for-sale housing, new rental housing in the Downtown should be multi-story buildings. The greater number of units attainable in a multi-story building would maximize the impact on Downtown retail.

Senior Housing Demand

Table 22 presents demand estimates for independent senior housing in the Market Area, including housing with and without services. We believe that senior housing without services or optional services would attract seniors who are more active and would find the convenience of being located near goods and services in a Downtown setting more appealing. Therefore, they are the target market for senior housing in Downtown.

The demand figure in Table 22 is calculated based on senior households with incomes above \$35,000, including those households whose incomes would rise to this level based on proceeds gained from the sale of their single-family homes. An income of \$35,000 and an allocation of 40% of that income on housing would translate to an affordable monthly cost of about \$1,200 per month to start.

HOUSING MARKET ANALYSIS

Seniors who own their homes also have an untapped source of equity that can be used to purchase a senior housing unit or to allocate toward a rental unit. For example, if a senior in the Market Area sold his/her home for \$150,000 (the average price of non-lakefront single-family homes in Mound as of 2012), the proceeds from the sale could produce an extra \$235 per month that could be used almost dollar for dollar for alternative housing. If the sales price increases to \$300,000, \$470 per month could be generated. This figure is calculated by subtracting marketing costs, estimated at 6%, from the proceeds from the sale of the home and using the interest income, estimated at 2%, toward monthly rent.

Including households who would income-qualify with the proceeds of a home sale (those households with incomes between \$25,000 and \$34,999), we estimate the number of age/income-qualified senior households in the Market Area in 2013 at 17,046 and 20,427 in 2018 (2013 incomes adjusted for expected inflation).

TABLE 22 INDEPENDENT SENIOR HOUSING DEMAND MOUND MARKET AREA 2013 & 2018						
	2013			2018		
	Age of Householder			Age of Householder		
	55-64	65-74	75+	55-64	65-74	75+
# of Households w/ Incomes of \$25,000 to \$34,999 *	135	101	214	115	127	169
(times) Homeownership Rate	x 90%	90%	76%	90%	90%	76%
(equals) Potential Market	= 122	91	163	= 104	114	128
(plus) # of Households w/ Incomes of >\$25,000*	+ 2,934	1,279	638	3,243	1,651	717
(equals)Total Potential Market Base	= 3,056	1,370	801	= 3,347	1,765	845
(times) Long-Term Capture Rate	x 0.5%	6.5%	12.0%	x 0.5%	6.5%	12.0%
(equals) Long-Term Demand Potential	= 15	89	96	= 17	115	101
Total Market Rate Demand Potential	= 200			= 233		
(plus) Demand From Outside Market Area (25%)	+ 67			+ 78		
(equals) Total Long-Term Demand	= 267			= 311		
(minus) Existing Market Rate Indep. Sr. Units	- 60			- 60		
(equals) Excess "Short-Term" Demand	= 207			= 251		
(times) % capturable by projects in Mound	x 30%			x 30%		
(equals) Demand for Additional Senior Units in Mound	62			75		
* Adjusted for inflation to \$30,000-\$39,999 and \$40,000 in 2018						
Source: Maxfield Research Inc.						

Adjusting to include appropriate demand capture rates (ranging from 0.5% of households ages 55 to 64, 6.5% of households 65 to 74 and 12.0% of households age 75 and older) for each age cohort, results in local demand potential for market rate independent senior housing of 200 units in 2013. Additional demand will come from outside the Market Area. We estimate this to

represent 25% of the total demand generated by Market Area seniors, or an additional 67 units in 2013. Together, the demand from Market Area seniors who would relocate to the Market Area totals 267 units in 2013.

From this total, the 60 existing market rate units available in the Market Area are subtracted to calculate the excess local demand for 207 units in 2013. Applying the same demand methodology to the projected 2018 senior household base, there is demand for 251 units of market-rate independent senior housing in the Market Area by 2018.

A project in any one location would not be able to capture 100% of the projected demand. **We estimate that Downtown Mound could capture 15% of the demand in 2013, or about 62 units, increasing to about 75 units in 2018.** We believe that this demand could be satisfied by either a rental or owned product (such as a senior cooperative).

Downtown Housing Conclusions and Recommendations

The housing market analysis identified the following current market conditions in Mound and the surrounding areas:

- Limited new multifamily product available – either rental or owned;
- Low rental vacancy rates indicating pent-up demand for new rental housing;
- Increased sales activity among single-family and multifamily units, but multifamily pricing is significantly lower from the early 2000s, when many of these properties were first marketed.
- Buyers are finding strong value in the existing housing market due to price deflation and continued low mortgage interest rates.
- Home inventory has decreased and there is very limited inventory in some price ranges.
- An increasing number of empty-nesters are considering alternatives to their single-family homes and many are considering townhomes or condominiums in order to reduce the burden of maintenance.

Downtown Mound offers many basic services within walking distance and residents located in the Downtown are more likely to do the majority of their shopping purchases at stores that they would be able to access nearby. Housing can continue to add to the potential customer base of the Downtown to the extent that it would attract households that would be most likely to spend their dollars close to home.

Simply stated, strong household growth creates opportunities to increase the local population which, in turn, creates opportunities to enhance and expand the local Downtown business base.

Target Markets

We have identified three primary target markets for housing in Downtown Mound based on the review of demographic growth trends and current housing conditions and trends. They are:

- 1) Empty-nesters and independent seniors currently living in the area or who wish to live in the area and are seeking multifamily housing as an alternative to their single-family homes (for reasons such as rightsizing their living space, shedding home maintenance responsibilities because they have second homes elsewhere or to increase time for traveling or other activities, and for seniors living alone, to increase socialization);
- 2) Young to mid-age singles and couples without children who work or will work in the west Metro Area and are seeking an affordable owned housing option in the Lake Minnetonka area and/or a lifestyle choice for multifamily owned housing in a downtown environment that offers retail, restaurants, and other entertainment within walking distance from their home;
- 3) Singles and couples without children (including lower- to moderate-income households) who are or will become employed in the west Metro Area and are seeking rental housing and also young singles who are drawn to Lake Minnetonka for lifestyle choices.

Recommended Housing Types

The housing types that we believe would satisfy housing demand from the target markets and that are most appropriate in the Downtown are listed below.

- For-Sale Townhomes – For-sale townhomes also experienced a substantial price deflation during the economic recession as homebuyers largely turned to single-family homes. Those that have held their value best are units with features and amenities at the upper end of the market, typically priced at \$350,000 or higher. These units tend to be attractive to empty-nesters and mid-age professional singles and couples. The demand calculations identified potential demand for between 63 and 72 units for the decade. The original plans for the Mound Harbor Renaissance District included a total of 55 units. Because one-level units would appeal to empty-nesters, who are a prime market

for for-sale townhomes, the development should incorporate a mix of one-level and two-level units.

For two-level units, we recommend base prices (2013 dollars) of approximately \$200 per square foot, on average. One-level units should be priced higher than two-level units – with base prices at roughly \$250 per square foot or slightly higher. Also units that are on the Lake or that have good views and access to boat slips on Lake Minnetonka may have additional price premiums.

- Condominium – The condominium market experienced a substantial downturn during the economic recession and many units that were on the market were converted to rentals. Regatta, the proposed condominium development that is part of The Promenade at Wayzata is currently preselling units and there is strong interest. Another development in Minnetonka that was never completed is planning to move forward with the remaining two buildings and has experienced exceptional interest in initial marketing. Although we do not recommend the development of a condominium building over the next two years, we recommend that you continue to monitor interest in this product for the Downtown and especially for units that would overlook the Lost Lake Channel. These units would appeal to mid-age as well as empty-nesters and seniors that wish to avoid stairs. We would recommend base prices in 2013 dollars of approximately \$300 per square foot, on average. Units with excellent views should be able to attain a price premium.
- Market Rate Rental Apartment – Approximately 80 to 90 market rate rental units could be supported in the Downtown over the next decade. A stand-alone building would likely be needed to accommodate this many units. Rent levels should range on average from \$1.40 to \$1.45 per square foot. A small portion of these units could be affordable for moderate-income households.
- Independent Senior Housing – We find that demand from independent seniors is sufficient to support the development of 60 units as of 2013. We recommend that the building be freestanding or there could be a public use on the main level such as a new public library. This has been done in several communities in the Twin Cities Metro with significant success and is currently being considered in Columbia Heights along with a new City Hall. A stand-alone senior building on Langdon Lake would provide seniors with a location that is somewhat quiet, but within walking distance to goods and services in the Downtown. We estimate per square foot rents on average at about \$1.35 to \$1.45 per square foot for this type of building. This project could be a for-sale development as well, for example, an age-restricted cooperative or condominium.

Introduction

The following points outline the process and methodology for assessing retail market conditions for Downtown Mound.

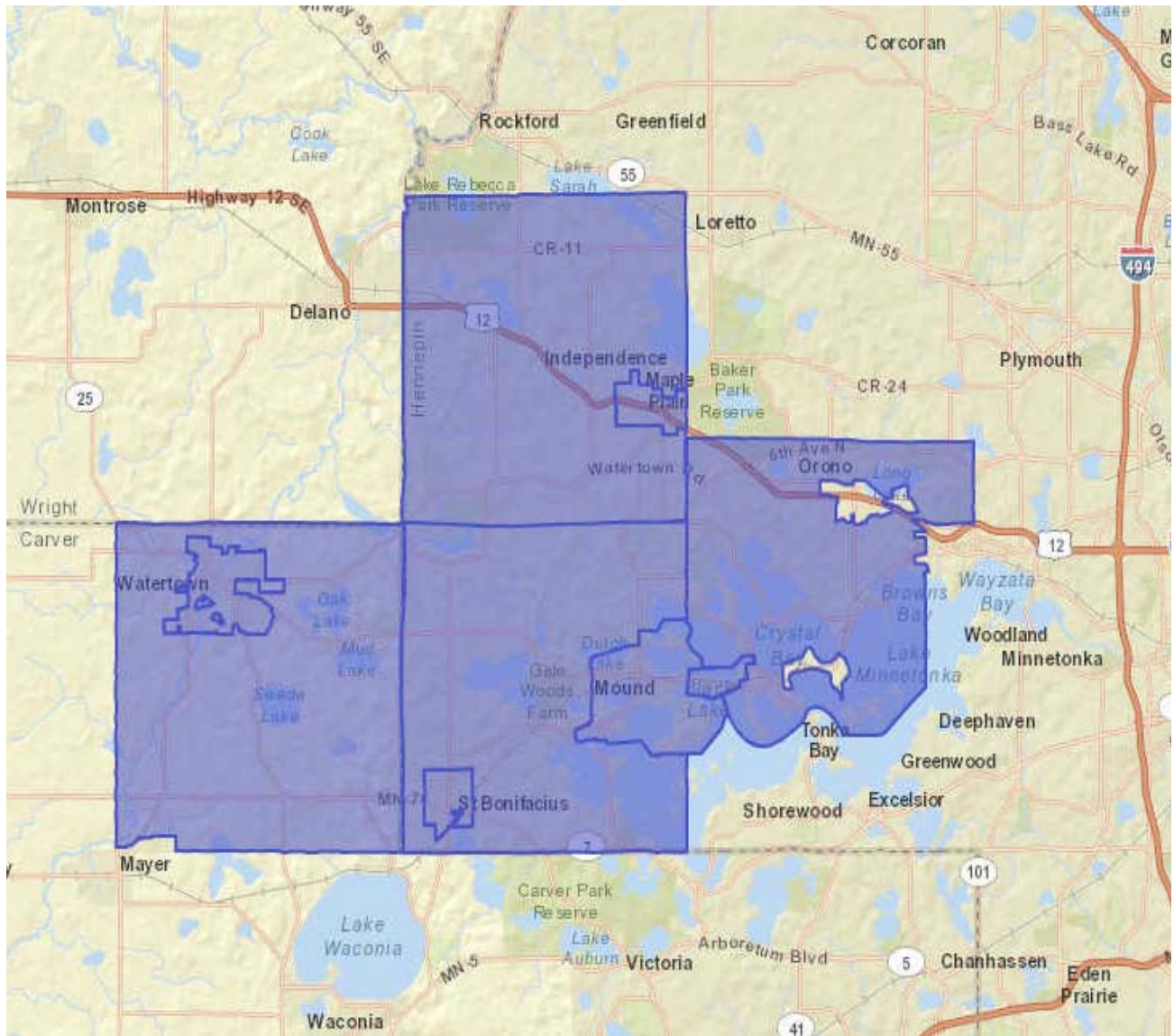
- A Retail Trade Area was identified for Downtown Mound based on customer traffic patterns and interviews with local business owners. This is the area from which businesses located in the Downtown are most likely to attract the majority of their customers. Demographic characteristics assessed for this Trade Area include population and household growth trends and daytime population.
- Consumer expenditure data is presented for people residing in the Market Area. We assume that people that work in Mound, but do not reside in Mound are similar in demographic composition to those that reside in the community.
- The supply of retail space in the Market Area was analyzed through fieldwork and from information obtained from the Minnesota Commercial Association of Realtors' (MNCAR) online database.
- Based on an analysis of existing customer spending potential, leakage of retail spending outside of the community and the existing supply and condition of retail spaces in Mound, demand is quantified for additional retail in the Mound Trade area and the ability of Downtown Mound to support additional retail space.

Market Area Definition

The majority of people who shop at retail establishments in the Downtown come from Mound and adjacent nearby communities. Based on conversations with business owners in Mound, the customer draw area is quite consistent. Therefore, the Mound Retail Market Area is defined as the communities of Mound, Spring Park, Navarre (Orono), Minnetrista, St. Bonifacius, Independence, Maple Plain, Watertown and Watertown Township. Due to travel patterns on existing highways and competitive shopping areas, people in communities to the south (Victoria, Chanhassen and Chaska), and east (Minnetonka, Wayzata) would not constitute a large market for retail in the Downtown. Downtown Mound may however, draw some people from these areas for specialty retail.

The map below shows the Retail Trade Area.

Mound Retail Trade Area



Population and Household Growth Trends and Projections

Table 23 shows the Retail Market Area's population and household growth trends and projections from 2000 to 2030. The 2000 and 2010 figures are from the U. S. Census Bureau, while the 2020 and 2030 projections were compiled by Maxfield Research Inc. and are derived from figures published by the Metropolitan Council and ESRI, a national demographics services company. The following are key points about population and household growth trends and projections in the Market Area.

- In 2000, the Retail Market Area had 34,700 people and almost 13,300 households. By 2010, the Retail Market Area had grown, reaching a population of 37,500 and 14,732 households. This represented population growth of 8.1% and household growth of 10.8%.
- Growth over the next 10 years is projected to be moderately strong, with the population growing by 13.8%, to a total of 42,692 people, and households growing by 14.4%, to a total of about 16,855 households by 2020.
- As growth occurs in the Market Area, so will the potential for additional retail. Downtown Mound will have an opportunity to capture a portion of retail expenditures from an additional 2,100 households in the Market Area by 2020.

TABLE 23 POPULATION AND HOUSEHOLD GROWTH TRENDS AND PROJECTIONS MOUND RETAIL/OFFICE MARKET AREA 2000 to 2030											
	Census		Estimate	Projection		Change					
						2000-2010		2010-2020		2020-2030	
	2000	2010	2013	2020	2030	No.	Pct.	No.	Pct.	No.	Pct.
Population											
Mound	9,435	9,052	9,230	9,400	9,480	-383	-4.1	348	3.8	80	0.9
Rem. of Market Area	25,271	28,454	29,274	33,292	37,782	3,183	12.6	4,838	17.0	4,490	13.5
Market Area Total	34,706	37,506	38,504	42,692	47,262	2,800	8.1	5,186	13.8	4,570	10.7
Hennepin County	1,116,206	1,152,425	1,177,220	1,265,250	1,397,610	83,769	8.1	112,825	8.1	132,360	10.5
Twin Cities Metro Area	2,642,062	2,849,567	2,868,250	3,144,000	3,447,000	353,327	15.4	294,433	15.4	303,000	9.6
Households											
Mound	3,982	3,974	4,052	4,235	4,350	-8	-0.2	261	6.6	115	2.7
Rem. of Market Area	9,296	10,758	11,092	12,620	15,660	1,462	15.7	1,862	17.3	3,040	24.1
Market Area Total	13,278	14,732	15,144	16,855	20,010	1,454	11.0	2,123	14.4	3,155	18.7
Hennepin County	456,129	475,913	488,470	525,000	594,615	37,069	8.8	49,087	8.8	69,615	13.3
Twin Cities Metro Area	1,021,456	1,117,749	1,147,300	1,293,000	1,464,000	145,950	16.7	175,251	16.7	171,000	13.2

Sources: US Census; ESRI, Inc.; Metropolitan Council; Maxfield Research Inc.

- Growth is expected to occur predominantly in areas that have land available for new residential development. These areas are generally located to the west, northwest and southwest of Mound. Areas where the commercial retail base is much smaller than Mound will attract households that want to travel a modest distance to access most basic goods and services. In general, this includes the communities of Orono, Minnetrista, Maple Plain, In-

dependence and Watertown. Many people commute into Minneapolis and the larger west suburbs for work on the weekdays. However, their commuting route most likely takes them along I-394 or Highway 7 and not on Highway 15. Therefore, trips to Downtown Mound are most likely to occur in the evenings or on weekends.

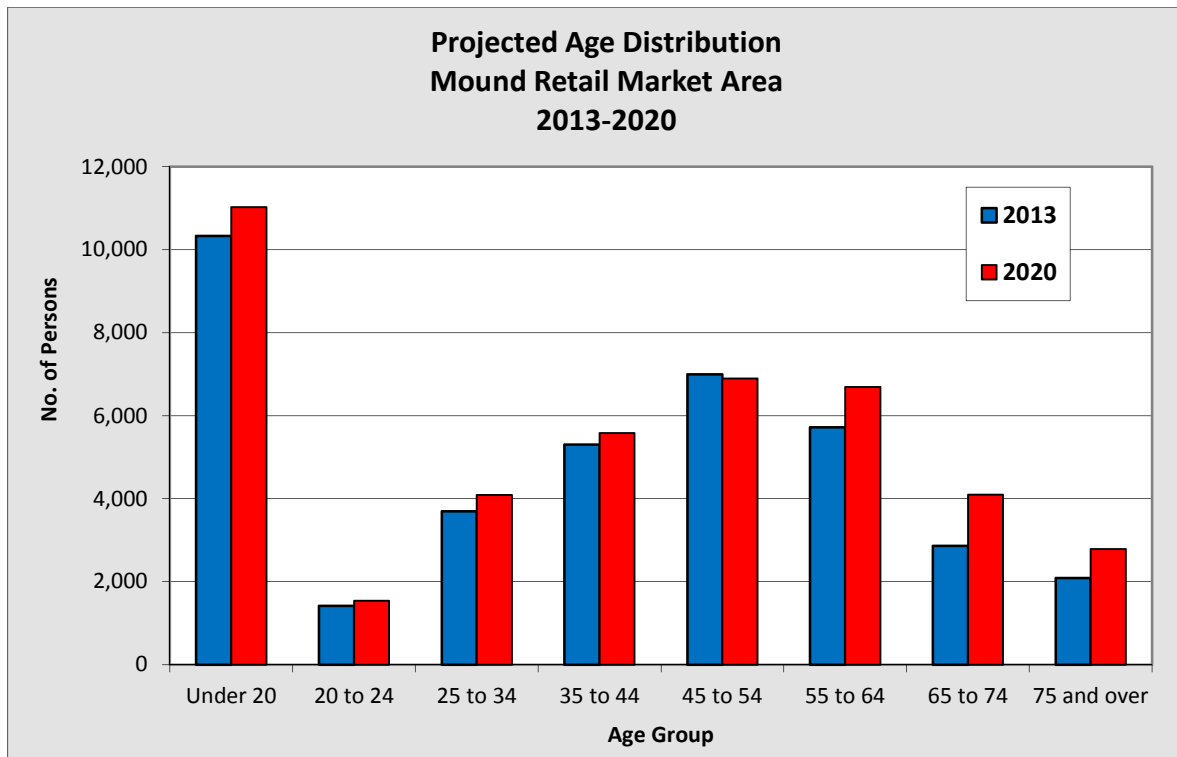
Population Age Distribution

Demand for retail goods and services in a given area can be influenced by the age of its population, since a shift in spending habits accompanies a person's aging through the life cycle.

Table 24 examines the population age distribution of the Market Area using 2000 and 2010 figures obtained from the Census and estimates and projections for 2013 and 2020 based on data obtained from ESRI Inc. The data is split into eight age cohorts: children and teens (people age 19 and under), young adults (people age 20 to 24), adults (people age 25 to 34 and 35 to 44), older adults (people age 45 to 54 and 55 to 64): and seniors (people age 65 to 74 and 75 and over).

TABLE 24 PROJECTED AGE DISTRIBUTION MOUND RETAIL MARKET AREA 2000 to 2020								
Age	Census		Estimate	Forecast	Change			
					2000-2010		2010-2020	
	2000	2010	2013	2020	No.	Pct.	No.	Pct.
Under 20	9,668	10,706	10,329	11,023	1,038	10.7	317	3.0
20 to 24	1,175	1,371	1,419	1,537	196	16.7	166	12.1
25 to 34	3,674	3,372	3,694	4,084	-302	-8.2	712	21.1
35 to 44	6,726	5,334	5,305	5,580	-1,392	-20.7	246	4.6
45 to 54	6,153	7,757	7,001	6,894	1,604	26.1	-863	-11.1
55 to 64	3,239	6,063	5,719	6,689	2,824	87.2	626	10.3
65 to 74	1,717	2,928	2,866	4,098	1,211	70.5	1,170	40.0
75 and over	1,516	2,303	2,086	2,787	787	51.9	484	21.0
Total	33,868	39,834	38,419	42,692	5,966	17.6	2,858	7.2
Sources: Bureau of the Census; ESRI, Inc.; Maxfield Research Inc.								

- The age distribution in Table 24 indicates that the Market Area is comprised of a higher proportion of mid-age families with children and older adults. The Market Area has 33% of its population between ages 45 and 64, compared to 27% of the Metro Area's population in 2013. Meanwhile, the 20 to 24 age cohort comprises 4% of the Market Area's population compared to 7% for the Metro Area in 2013.



- The age distribution shown in Table 24 suggests that children of families in the Market Area seek housing elsewhere when they reach their 20s. This is likely due to many young people in this age group leaving the community for higher education institutions or work opportunities elsewhere. The Mound School District is very highly rated and a significant proportion of its graduates attend institutions of higher learning beyond high school graduation. A portion of those individuals may return to the area after college graduation if they find a position in the Twin Cities. However, the population/customer base in the Market Area is skewed more toward mid-age and older adults who usually have more disposable income.
- The growth trend shows the 45 to 64 age cohort with the greatest growth this decade, gaining 4,375 people or increasing by 58.9%.

Daytime Population

Table 25 shows the daytime population and resident workforce population in Mound and four other nearby communities. This information was compiled by the US Census using estimates (five-year average) from the American Community Survey from 2006 to 2010. The information identifies the number of people that work in the community along with the number of people that work and work outside of the community. A ratio of live there/work there for the population is identified which indicates the number of people that would be available to the retail market base during the daytime hours, when most retail establishments are open. Communities that have a high ratio of live there/work there for the population can often support a

RETAIL MARKET ANALYSIS

greater amount of retail space because an outside worker population coming into a community adds to the customer base and supports additional goods and services such as restaurants, hotels etc. Maintaining and expanding the employment base in and near Downtown is important because the presence of more employees that do not live in the area can contribute to retail sales, and increase the viability of additional retail.

Table 25 shows that in Mound, approximately 1,821 people work in Mound during the day and about 4,235 working people live in Mound. This means that during the day, Mound has a net loss of workers that commute elsewhere of about 3,000 people. Similarly, Minnetrista and Orono also had much smaller daytime populations. Wayzata however, has a ratio of 2.87 of workers as compared to residents. The high number of commuters outside of Mound and the surrounding communities demonstrates the limited employment base that exists in the immediate area.

TABLE 25 ESTIMATED DAYTIME POPULATION MOUND AND SELECTED NEARBY COMMUNITIES 2006-2010						
	<u>Total Est. Population</u>	<u>Total Workers Working in MCD</u>	<u>Total Workers Living in MCD</u>	<u>Estimated Daytime Pop.</u>	<u>% Workers Who Live/Work in MCD</u>	<u>Work Here/ Live Here Ratio</u>
Mound	9,037	1,821	4,835	6,023	16.5	0.38
Minnetrista	5,976	1,269	3,028	4,217	21.5	0.42
Orono	7,386	2,351	3,391	6,346	19.3	0.69
Wayzata	3,717	4,883	1,700	6,900	21.0	2.87
MCD=Minor Civil Division						
Source: Census Bureau: American Community Survey: Five Year Estimates (2006-2010)						

While the employee base in the Market Area adds to the potential retail customer base – in addition to Market Area residents – most people shop for daily necessities closer to their homes. Usually a small portion of an area's non-resident employee base regularly patronizes retail businesses in that area. Restaurants with lunch menus benefit the most from non-resident employees. Because of the large out-migration of residents to jobs outside the Market Area, we exclude daytime population in our retail demand calculations.

Categories of Goods

Retail goods are usually divided into three categories of goods: neighborhood, shopping and specialty goods. Neighborhood (convenience) goods are those that are bought frequently and are therefore usually purchased where it is most convenient to buy them, usually near home or work (food, personal care goods and services, pharmaceuticals, alcoholic beverages). Shopping

goods are those that shoppers will take more care and make a greater effort to purchase and for which they prefer to have a comparative selection so that quality, types, and price can be compared. Specialty goods are those for which shoppers expend the greatest effort and for which there is little competition (unique goods or items for which there are few substitutes or alternatives). The draw area for shopping, and therefore, its size, is affected by the availability of such goods.

The draw area for most neighborhood goods in a suburban area is less than two miles. People typically purchase shopping and specialty goods less often than neighborhood goods, and are willing to travel farther to purchase these items. Thus, the draw area for shopping goods is larger, typically about five miles in a suburban setting. However, since the area to the west of Mound is primarily rural with few retail stores, the draw areas for both neighborhood and shopping goods extends about 10 miles to the west and about five miles to the northwest along Highway 110. The draw area to the south and east is smaller because residents of these areas typically travel Highway 12 or Highway 7 into the Twin Cities and bypass Mound, although Spring Park residents and some Navarre and Tonka Bay residents come to Mound for various items.

Historically, most retail stores were independently owned and located in individually owned buildings in a Downtown. Today, most retail stores are national retailers that are located in shopping centers along major Highways. Shopping centers are classified into three categories: *Neighborhood*, *Community*, and *Regional* shopping centers.

- ***Neighborhood Centers*** range from about 30,000 to 180,000 square feet and are typically anchored by a grocery store and/or drug store. These centers serve the day-to-day shopping needs of surrounding neighborhoods within a one- to two-mile radius (serving 10,000 to 40,000 people). The newly constructed Mound Marketplace is a neighborhood center with about 74,000 square feet and Jubilee Foods as its anchor. Across the street from Mound Marketplace is a newly expanded Walgreens drugstore. Mound's municipal liquor store is also located in this center.
- ***Community Centers*** typically have between 180,000 and 465,000 square feet, although some newer "power centers" are larger, with up to 800,000 square feet. Community centers are usually anchored by a discount and/or department store and include a variety of small tenants. Community centers draw from a larger geographic area – about five miles, and serve a population of up to 150,000.

- **Regional Centers** range from about 300,000 to 1.2 million square feet of GLA and must include at least one (usually two or more) major department store, along with a variety of additional shops. Most regional centers are enclosed malls. However, some of today's new power centers have draw areas similar to a traditional enclosed mall. These shopping centers have the largest draw areas among the three shopping center classifications and typically serve a population of about 250,000 or more.

Sine the 1950s, new retail development in the Twin Cities and nationwide has occurred primarily in shopping centers. Meanwhile, the amount of retail located in downtowns has been in decline. Today, most retail expenditures occur at stores that are located in a traditional shopping center format with on-line internet sales increasing in volume against traditional soft goods outlets.

Mound's newest retail is found in and surrounding a traditional neighborhood shopping center. Additional centers are located in Mound (Commerce Center and Shoreline Place), both of which have experienced increased vacancies as tenants have relocated either to new space in Mound or to space outside of Mound. Conversations with business owners and stakeholders and visual inspection of operations in the Downtown indicate that traffic at new retail outlets is active. Businesses that remain in older centers are also doing well, but vacant spaces give an appearance of an area or center that is struggling despite strong performance by individual tenants. Instead of attracting new businesses to Mound, most businesses have either relocated and/or expanded in Mound or have left for a location outside of Mound, but may remain within the Mound Trade Area. These businesses remain convenient for customers, but do not add to the tax base or retail sales base of the City.

Consumer Expenditure Patterns

Table 26 shows consumer expenditures for retail goods and services for the Market Area in 2013, according to data obtained from ESRI Inc. This data is used later in the report to calculate the potential demand for retail space, based on projected population growth in the area and the resulting growth in consumer expenditures. The following are key points from the consumer expenditure data.

- Market Area consumers spend approximately \$566 million per year on the retail goods and services shown in Table 26 (excluding housing, insurance, health care, lodging, and education). Average annual expenditures are estimated to be \$17,316 per capita and \$44,559 per household.
- Of the 29 categories of retail items in Table 26, 11 are considered items typically found at neighborhood and convenience centers, five categories are considered to be specialty-oriented goods or services, while the remaining categories are typically found at community

TABLE 26
HOUSEHOLD EXPENDITURES BY SELECTED PRODUCT TYPE
MOUND RETAIL MARKET AREA
2013

<u>Category</u>	Annual Expenditures			
	<u>Total (\$000's)</u>	<u>Average Per HH</u>	<u>Average Per Capita</u>	<u>Percent of U.S. Avg.</u>
Food at Home	102,454	6,833	2,689	143
Food Away from Home	67,147	4,479	1,762	148
Alcoholic Beverages	11,389	760	299	150
Personal Care Products	9,187	607	241	145
Over the Counter Drugs	2,495	166	65	141
Prescription Drugs	9,943	663	261	144
<i>Women's Apparel</i>	10,104	674	265	89
<i>Men's Apparel</i>	5,922	395	155	98
<i>Children's Apparel</i>	5,497	367	144	104
<i>Footwear</i>	4,383	292	115	72
<i>Other Apparel & Services</i>	6,514	218	171	195
Housekeeping Supplies	14,703	981	386	145
Household Textiles	2,289	153	60	153
<i>Furniture</i>	10,382	692	273	152
<i>Floor Coverings</i>	652	44	17	180
<i>Major Appliances</i>	5,849	390	154	149
<i>Small Appliances</i>	936	62	25	147
Misc. Household Equip.	2,592	94	68	130
<i>TV, Radio & Sound Equipment</i>	50,116	3,422	1,315	161
<i>Entertainment fees</i>	15,300	1,020	402	171
<i>Eyeglasses and Contact Lenses</i>	1,882	126	49	154
Pets	13,260	884	348	175
<i>Toys and Games</i>	2,901	193	76	147
<i>Sports/Recreation/Exercise Equipment</i>	3,362	224	88	132
<i>Photo Equipment and Supplies</i>	1,709	114	45	154
<i>Video Games and Video Software</i>	2,462	82	65	140
Books/Magazines/Newspapers	3,452	230	91	158
<i>Home Computer Hardware</i>	4,961	330	130	150
<i>Home Computer Software/Access</i>	434	29	11	154
<i>Vehicle Purchases</i>	74,641	4,978	1,959	146
Gasoline and Motor Oil	61,633	4,112	1,618	140
Vehicle Maintenance/Repair	23,411	1,562	614	150
Total	531,962	35,176	13,963	146
Bold items reflect neighborhood-oriented goods and services <i>Italicized items reflect specialty-oriented goods and services</i> <i>Bold and italicized items indicate that these could fall into either category depending on what is offered.</i> Sources: ESRI Inc.; Maxfield Research Inc.				

centers or regional malls (larger shopping centers with retailers that require a larger customer base than neighborhood retailers). The “neighborhood” categories are bolded and the “specialty” categories are italicized in the table. Combined, the average annual expenditures for these items in the Market Area was \$8,136 per capita and \$20,938 per household.

- The two categories accounting for the greatest percentage of consumer expenditures are *Food at Home* (groceries) and *Food Away from Home* (restaurants). Food at Home or grocery accounts for 10% of household expenditures while Food Away from Home accounts for 12% of household expenditures. The significant growth in Food Away from Home documents that households are spending more of their food dollars at restaurants and at grocery outlets that also offer prepared foods.
- According to ESRI’s “Market Index,” the average household expenditure for most items by Market Area residents was greater than the U.S. average, as indicated by an overall market index of 1.54 (residents spent 54% more on consumer goods than the national average). The fact that Market Area households spend significantly above the national average on most retail goods and services is an indicator of a relatively high household incomes in the area as compared to the nation.
- In addition to supporting retailers of neighborhood goods that serve the local population, the Downtown currently supports retailers of specialty and some shopping goods that draw customers from a larger area. Many retailers of shopping and specialty goods are national chains that have specific location requirements – which typically place them in an area with a high population density and better highway access than Downtown Mound. The stores that Downtown Mound would attract will most likely be small, independently-owned specialty stores, versus larger stores of shopping goods.
- The fact that households spend more than the national average on retail goods and services is a strength that can increase the area’s attractiveness to retailers who are searching for expansion markets.

Retail Gaps Analysis

Table 27 presents a summary of the potential demand and supply of retail goods and services for the communities that comprise the Retail Trade Area. The table shows the level of potential demand from the existing resident household base in the area as matched against retail sales estimates for each category of retail outlet. A number of Mound retailers draw customers from a larger area including Minnetrista, Orono, Independence, Maple Plain, St. Bonifacius as well as a few from other areas nearby such as Tonka Bay, Navarre, Shorewood, Wayzata and Waconia.

The gaps analysis lists potential demand by retail industry group along with the estimated retail sales for that group among the existing retail outlets. A negative number indicates that there is sufficient supply or oversupply of that type of retail use in the Market Area. A positive number indicates there is a retail gap or additional demand that could potentially be captured by other retail outlets. The leakage or surplus factor identifies the proportion of sales that is being captured by outlets that are outside of Mound and Spring Park.

As shown on the table, there is only one category that is currently identified as having an oversupply in the Retail Trade Area:

Lawn & Garden Equipment and Supply Stores

All other uses have some level of leakage, meaning that customers are spending their retail dollars outside of Mound for many of the industry categories shown on the table.

We caution here however that a strict face value interpretation of this data does not account for the retail criteria of national versus local outlets and that national chains in a number of these categories are not likely to consider Mound as a location for a retail outlet. Smaller stores that have the capacity to draw from the surrounding area and that are not in direct competition with other outlets nearby may be able to capture a portion of the retail sales that are currently leaving the community.

Because existing Mound retailers are competing with other retailers in the Retail Trade Area as well as against other outlets that are located in larger retail concentrations outside of Mound, the level of gap that exists for specific categories may not be able to capture a sufficient amount of the leakage to support a second or third retail outlet in Mound.

The information on Table 27 should be used as a guide to consider some gaps in retail that could be offered in the community to enhance the existing retail base without cannibalizing sales from other businesses. This is critical to the ongoing success of the Downtown. If too many of one type of outlet locates in the same Trade Area, it could create a situation for the established retailer and the new retailer that neither could capture sufficient revenues to support the two operations and both would close, increasing the loss to the community and to customers.

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TABLE 27
RETAIL DEMAND POTENTIAL AND LEAKAGE
PRIMARY MARKET AREA
2012

Industry Group (NAICS Code)	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap (Demand - Supply)	Surplus/Leakage Factor	Number of Businesses
SUMMARY					
Total Retail Trade and Food & Drink (NAICS 44-45, 722)	\$610,340,284	\$191,700,836	\$418,639,448	52.2	994
Total Retail Trade (NAICS 44-45)	\$548,434,262	\$172,007,197	\$376,427,065	52.2	717
Total Food & Drink (NAICS 722)	\$61,906,022	\$19,693,639	\$42,212,383	51.7	277
EXPENDITURE TYPE					
Motor Vehicle & Parts Dealers (NAICS 441)	\$102,986,725	\$50,264,756	\$52,721,969	34.4	76
Automobile Dealers (NAICS 4411)	\$87,411,260	\$38,991,068	\$48,420,192	38.3	19
Other Motor Vehicle Dealers (NAICS 4412)	\$7,222,834	\$6,932,719	\$290,115	2.0	17
Auto Parts, Accessories, and Tire Stores (NAICS 4413)	\$8,352,631	\$4,340,969	\$4,011,662	31.6	40
Furniture & Home Furnishings Stores (NAICS 442)	\$12,031,410	\$3,468,066	\$8,563,344	55.2	38
Furniture Stores (NAICS 4421)	\$7,137,687	\$2,146,139	\$4,991,548	53.8	9
Home Furnishings Stores (NAICS 4422)	\$4,893,723	\$1,321,927	\$3,571,796	57.5	29
Electronics & Appliance Stores (NAICS 443/NAICS 4431)	\$13,458,869	\$2,021,164	\$11,437,705	73.9	95
Bldg Materials, Garden Equip. & Supply Stores (NAICS 444)	\$28,448,959	\$15,373,147	\$13,075,812	16.5	73
Building Material and Supplies Dealers (NAICS 4441)	\$17,897,787	\$6,814,882	\$11,082,905	44.8	60
Lawn and Garden Equipment and Supplies Stores (NAICS 4442)	\$3,551,172	\$8,558,265	(\$5,007,093)	(41.3)	13
Food & Beverage Stores (NAICS 445)	\$84,950,766	\$34,866,602	\$50,084,164	41.8	78
Grocery Stores (NAICS 4451)	\$73,423,275	\$28,468,229	\$44,955,046	44.1	35
Specialty Food Stores (NAICS 4452)	\$1,987,181	\$966,187	\$1,020,994	34.6	13
Beer, Wine, and Liquor Stores (NAICS 4453)	\$9,540,310	\$5,432,186	\$4,108,124	27.4	30
Health & Personal Care Stores (NAICS 446/NAICS 4461)	\$39,271,572	\$5,345,783	\$33,925,789	76.0	55
Gasoline Stations (NAICS 447/NAICS 4471)	\$59,215,305	\$35,367,276	\$23,848,029	25.2	50
Clothing and Clothing Accessories Stores (NAICS 448)	\$28,501,303	\$5,896,345	\$22,604,958	65.7	55
Clothing Stores (NAICS 4481)	\$22,313,032	\$4,615,321	\$17,697,711	65.7	32
Shoe Stores (NAICS 4482)	\$4,948,178	\$250,117	\$4,698,061	90.4	9
Jewelry, Luggage, and Leather Goods Stores (NAICS 4483)	\$1,240,093	\$1,030,907	\$209,186	9.2	14
Sporting Goods, Hobby, Book, and Music Stores (NAICS 451)	\$13,250,965	\$2,179,891	\$11,071,074	71.7	48
Sporting Goods/Hobby/Musical Instrument Stores (NAICS 451)	\$10,416,939	\$1,856,723	\$8,560,216	69.7	39
Book, Periodical, and Music Stores (NAICS 4512)	\$2,834,026	\$323,168	\$2,510,858	79.5	9
General Merchandise Stores (NAICS 452)	\$104,444,252	\$1,494,853	\$102,949,399	97.2	32
Department Stores Excluding Leased Depts. (NAICS 4521)	\$44,511,455	\$211,575	\$44,299,880	99.1	11
Other General Merchandise Stores (NAICS 4529)	\$59,932,797	\$1,283,278	\$58,649,519	95.8	21
Miscellaneous Store Retailers (NAICS 453)	\$12,669,530	\$5,881,491	\$6,788,039	36.6	104
Florists (NAICS 4531)	\$791,291	\$540,048	\$251,243	18.9	18
Office Supplies, Stationery, and Gift Stores (NAICS 4532)	\$2,650,275	\$458,208	\$2,192,067	70.5	34
Used Merchandise Stores (NAICS 4533)	\$1,989,301	\$563,489	\$1,425,812	55.9	7
Other Miscellaneous Store Retailers (NAICS 4539)	\$7,238,663	\$4,319,746	\$2,918,917	25.3	45
Nonstore Retailers (NAICS 454)	\$56,204,606	\$9,847,823	\$46,356,783	70.2	13
Electronic Shopping and Mail-Order Houses (NAICS 4541)	\$48,864,174	\$5,542,015	\$43,322,159	79.6	3
Vending Machine Operators (NAICS 4542)	\$1,572,986	\$1,278,253	\$294,733	10.3	6
Direct Selling Establishments (NAICS 4543)	\$5,767,446	\$3,027,555	\$2,739,891	31.2	4
Food Services & Drinking Places (NAICS 722)	\$61,906,022	\$19,693,639	\$42,212,383	51.7	277
Full-Service Restaurants (NAICS 7221)	\$25,880,831	\$10,898,632	\$14,982,199	40.7	136
Limited-Service Eating Places (NAICS 7222)	\$31,354,254	\$6,602,910	\$24,751,344	65.2	122
Special Food Services (NAICS 7223)	\$2,189,804	\$908,852	\$1,280,952	41.3	10
Drinking Places - Alcoholic Beverages (NAICS 7224)	\$2,481,133	\$1,283,245	\$1,197,888	31.8	9

Note: All figures quoted in 2012 dollars. Supply (retail sales) estimates sales to consumers by establishments, sales to businesses are excluded. Demand (retail potential) estimates the expected amount spent by consumers at a retail establishment. Leakage/Surplus factor measures the relationship between supply and demand and ranges from +100 (total leakage) to -100 (total surplus). A positive value represents "leakage" of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area.

Sources: ESRI; Maxfield Research Inc.



Selected Retail Developments In and Near the Market Area

Maxfield Research Inc. collected information on shopping centers in Mound and in the surrounding Mound area. Three neighborhood centers in Downtown Mound were surveyed along with four retail centers nearby that compete to some degree with Downtown Mound. These neighborhood centers are located in Wayzata, Spring Park, Shorewood and Mound. Table 28 lists the centers surveyed with information on total space and square feet available, lease rates, the center's tenant mix, and traffic counts.

The following are key points about the retail centers in Table 28.

- The seven surveyed shopping centers combine for 350,000 square feet (for an average size of 50,000 square feet). The shopping centers had a combined 10,000 square feet of vacant space, most of which is located in one building, for an overall vacancy of 2.8%. Commerce Place has vacancy because some of its tenants have relocated. The low vacancy rate among the surveyed shopping centers indicates that there is potential for increased retail space in the area.
- The retail tenants in the surveyed shopping centers are primarily neighborhood oriented. Two of the shopping centers are anchored by grocery stores and most contain at least one eating establishment. Other types of neighborhood tenants include liquor stores, hair salons, video rental, hardware store, coffee shop, fitness centers, financial institutions and financial services, pizza shop, service offices such as accounting and home decorating, community organization, and dry cleaning. These retail types provide goods and services primarily to local people daily or weekly. There are a few specialty retailers including jewelry,

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women's clothing, custom framing, and these are typically interspersed among the neighborhood uses. Mound seems to have a sufficient amount of space dedicated to businesses that deliver basic needs to the community. Expansion of existing retail in the Downtown must be carefully targeted to attract new uses that do not simply duplicate what is there, but capture additional expenditures that are currently leaving the immediate Trade Area.

TABLE 28 SELECTED AREA RETAIL CENTERS MOUND RETAIL TRADE AREA April 2013						
Center Name / Address	Year Built	Tot. Space /SF Avail.	Lease Rate	Tenants		2012 Traffic Count
Long Lake Town Center 1865 Wayzata Blvd. Long Lake	1987	43,104 1,012	\$9.00-\$14.00 Net	Henn. Cnty. Library Computer Repair Enchanted Garden Floral	Little Acorn's Child Care Perennials Custom Frame	9,800
Shoreline Plaza 2324 Wilshire Blvd Mound	1964	33,966	\$8.00 - \$10.00 Net	First Minnesota Bank Dollar Store	Early Childhood Education WECAN	11,700
Commerce Place 2200-2238 Commerce Blvd. Mound	1986	40,358 11,310R 16,345O	\$10.00-\$16.00 Net	Christopher & Banks Happy Garden Chinese Insurance V & S Jewelry and Gifts	Garagedale Wells Fargo Bank (Outlot)	10,100
Marina Center 4659 Shoreline Drive Spring Park	1964	47,210 5,598R 6,611O	\$8.00 - \$12.00 Net	Ridgeview Medical Center MGM Liquors Papa Murphys Moxie Video	Pedal Wild Smile Masters Dental Clinic Hair Graphics	14,500
Wayzata Village Shoppes 812 E. Lake St. Wayzata	1988	43,127 5,292	\$20.00-\$22.00 Net	Card Party of Wayzata F & G Optical Fitness Together GNC	Pilates MN From Rags to Riches Smith Accounting Service Latham Optical	13,700
Shorewood Village 23600-23750 Highway 7 Shorewood	1975	72,250 1,498	\$14.00-\$16.00 Net	Cub Foods AAA Travel Hairazors Snyder Pharmacy	True Value Edward Jones Dance Studio	13,200
Mound Marketplace Lynwood & Commerce Mound	2003	66,800 1,597	\$16.00-\$23.00 Net	Jubilee Harbor Wine & Spirits Carbone's Pizza Scotty B's Restaurant	Great Clips Tobacco Shop Anytime Fitness Subway	10,100
Tonka Village Shopping Ctr. 5607 Manitou Road Tonka Bay	1959R	38,060 0 25,800 Build-to-suit	\$14.00-\$18.00 Net	Truffle Hill Chocolates Kay Maries Dance Heartbreaker Caribou Coffee	Hazelwood Grill MGM Liquors	13,100
Sources: MN Shopping Center Association; MN DOT, MNCAR						

- Lease rates at existing shopping centers range from a low of about \$8.00 per square foot to a high of approximately \$22.00 to \$23.00 per square foot. Lease rates are net (meaning that, in addition to the rent, tenants also pay for taxes and common area maintenance). On average, net rents at the surveyed projects range from about \$9.00 to \$10.00 per square foot for older centers to about \$18.00 per square foot for new buildings.
- Except for Mound Marketplace, the shopping centers in Mound are generally older. In looking at the existing centers, there is more vacant space in the centers that are older than in the newer center. Although lease rates may be less in an older center, retailers trying to attract customers are conscious of their outlet's appearance and the appearance of the center. Drive-by and pedestrian traffic can add to a destination retailer's level of business. As such, retailers prefer a location that is active and vibrant all other things being equal. A retailer however, will weigh their existing space with the cost of upgrading or expanding against the potential additional revenue that can be gained from making these improvements.
- The decision to expand or relocate and upgrade space is costly and retailers do not enter into these decisions lightly. In addition, because of the high cost of opening a store or starting a restaurant, start-up businesses usually face limited financial resources and because of that, the greatest risk. Many small businesses would like to locate in smaller communities, but paying for new space that will support the growth of their business is often financially infeasible. As a result, new businesses may often move to the least expensive space they can find which does not address the tastes and preferences of the customers they are trying to attract.
- National chain restaurants and national chains in general have deep pockets, but they also have strict criteria on how they evaluate a potential market. They have less flexibility because they are heavily brand-oriented and must maintain the image of that brand in the marketplace.

Planned and Pending Retail Developments

Mound recently announced the groundbreaking for a new bistro restaurant concept that will open on a parcel adjacent to the new Dakota Trail and Walgreens. The bistro will serve beer and wine and locally grow organic foods. The space will be small, seating only 44 people. At this time, the owner intends to serve breakfast, lunch and dinner.

There has been other interest in finding space in Downtown Mound from other types of specialty and retail businesses. According to those interviewed, many of the businesses are small, start-up enterprises that cannot afford to pay the rent for new space. For others, the type of space required may not fit with the spaces that are currently available (size, configuration, lease rate).

The Promenade at Wayzata is currently under construction with the first phase of retail space that will face Superior Street and East Lake Street. A total of approximately 48,000 to 50,000 square feet is available for lease and is anticipated to accommodate some restaurants as well as clothing and other types of soft goods retailers. Above the retail component will be the 58-unit Regatta condominiums. Although a small footprint Lund's grocery store is scheduled to open November 2013, most of the remaining retail space is expected to be occupied in 2014.

There are no other retail developments currently planned of which we are aware.

Projected Demand for Retail Space

Earlier sections studied shopping patterns and factors that influence the demand for retail space in the Market Area, such as population growth and consumer expenditure trends, and reviewed the current supply of retail space. Tables 29 and 30 combine the "demand" and "supply" data to calculate the amount of retail space (gross leasable area in square feet) supportable within the Market Area. Table 29 calculates demand for neighborhood goods and services, while Table 30 calculates demand for selected shopping and specialty retail goods and services.

The figures utilized for the calculations reflect the amount of dollars spent on consumer goods and services (from consumer expenditure reports from ESRI, Inc.), the estimated median per square foot sales for neighborhood retail centers (from Dollars and Cents of Shopping Centers, Urban Land Institute), and the estimated current supply of retail space in the Market Area (from MNCAR database, the Hennepin County Assessor and field work by Maxfield Research Inc.).

Also shown in the Tables is a calculation for "net leakage." Net leakage is the amount of consumer spending for convenience goods and services that is likely to be spent outside of the Market Area. (Retail space in the Market Area is estimated to be capturing roughly 50% of the total retail expenditures for neighborhood goods by Market Area residents, and only about 35% of shopping and specialty goods). This calculation is based on the proportion of consumer expenditures by Market Area residents being captured by retail space in the area from the retail gaps analysis. The net leakage figures in the demand tables are based on the estimated leakage after new space would be added in the Market Area, estimated at 35% for neighborhood retail and 65% for specialty retail. While leakage would be less once additional space is added in the Market Area, it would still be significant, especially for shopping and specialty goods, as many Market Area residents will continue to consistently purchase items at centers located outside of the Market Area.

The following bullet points summarize our demand calculations presented in Tables 29 and 30.

Neighborhood Retail

- Table 29 calculates demand for neighborhood retail space in Downtown Mound and shows a total population in the Retail Market Area of 38,419 people in 2013. Based on our analysis of consumer expenditure data, we estimate that consumer expenditures for the types of neighborhood goods and services that could be purchased in Downtown Mound are \$3,581 per person (26% of per capita total expenditures for retail goods). Per capita expenditures used in Table 29 are obtained from the Consumer Expenditures table. The categories for neighborhood retail are food away from home, alcoholic beverages, personal care products, over the counter drugs, prescription drugs, housekeeping supplies, small appliances, miscellaneous household equipment, and books/magazines/newspapers. Multiplying \$3,581 by 38,419 people results in total retail sales of \$137.6 million. However, factoring in leakage of retail dollars spent by Market Area residents to centers outside of the Market at 50%, the total demand in the Market Area is reduced to \$68.8 million.
- Next, the \$62.5 million being generated by existing neighborhood retail space for these types of neighborhood goods is subtracted from total demand. This results in excess demand for \$6.3 million in expenditures for neighborhood goods and services. Dividing the potential to capture an additional \$6.3 million in expenditures by the average sales per square foot of retail space (\$250), we calculate demand in the Market Area for about 25,160 square feet in 2013.
- In 2020, we project the Market Area to grow to 42,692 people (or an increase of 4,273 people from 2013). With the increase in population, we project retail demand to increase to 77,789 square feet in the Market Area in 2020.
- Downtown Mound will compete with other areas in the Market Area for new retail stores over the decade including Orono, Shorewood, Maple Plain and Excelsior. Besides competition from these other communities, no one location will be able to capture 100% of the retail demand. We estimate that Downtown Mound can capture 5% to 10% of the neighborhood retail demand, or **5,000 to 6,300 square feet in 2013.**
- We estimate that the capture rate for neighborhood retail Downtown will remain the same through 2020, because the projected population growth will be primarily outside of Mound. We project neighborhood retail demand to increase to **16,000 to 19,000 square feet in 2020.**

The figures above exclude uses for vehicle repair and maintenance, gasoline purchases and grocery stores.

**TABLE 29
DEMAND FOR NEIGHBORHOOD RETAIL SPACE
DOWNTOWN MOUND
2013 TO 2020**

	2013	2020
Demand		
Population	38,419	42,692
(times) Annual Per Capita Expenditures	x \$3,581	\$3,839
(equals) Total Expenditures	= \$137,578,439	\$163,894,588
(minus) Approx. Leakage Outside Market Area (50%) ¹	- \$68,789,220	\$81,947,294
(equals) Total Estimated Demand	= \$68,789,220	\$81,947,294
Supply		
Existing Neighborhood Retail Space in Market Area*	250,000	250,000
(times) Average Sales per Square Foot ²	x \$250	\$250
(equals) Total Estimated Annual Sales in Market Area	= \$62,500,000	\$62,500,000
Net Market Support		
Excess Demand (Demand minus Supply)	= \$6,289,220	\$19,447,294
Supportable Retail Space		
(divided by) Average Sales per Square Foot ²	\$250	\$250
(equals) Total Additional Space Supportable in Market Area	= 25,157	77,789
(times) Amount Capturable by Downtown Mound	x 20% - 25%	20% - 25%
Total Demand for Additional Retail Space in Downtown (in sq. ft.)	= 5,031 - 6,289	15,558 - 19,447
¹ Leakage is equal to the estimated amount of retail dollars spent outside the Market Area. ² From <u>Dollars and Cents of Shopping Centers</u> , Urban Land Institute. Sources: ESRI Inc. <u>Dollars and Cents of Shopping Centers</u> , Urban Land Institute Hennepin County Assessor Maxfield Research Inc.		

Shopping and Specialty Retail

- We identified several categories of shopping and specialty goods (italicized in Table 26) from which Downtown Mound could capture a portion of sales from the Market Area. Some shopping and specialty goods are sold in large stores that physically would not fit well in the Downtown, such as furniture, major appliances and cars. Apparel is generally sold in regional shopping centers or community centers where there is a greater selection of stores for consumers to comparison shop. We did not however, exclude apparel expenditures for these categories of goods from the calculations. Multiplying the average per capita expenditures for the selected retail categories (\$2,044) by the Market Area's population (38,419) results in total estimated sales in 2013 of \$78 million in the Market Area.
- The number of shopping and specialty retail stores is limited in the Market Area, and the majority of purchases for these types of goods by Market Area residents are made outside of the Market Area. Even with new space added, we estimate net leakage for shopping and specialty goods in Table 30 at 70% in the Market Area. Factoring in net leakage, total demand for the shopping and specialty goods is estimated at \$23.5 million in the Market Area.
- We estimate that 20,000 square feet of space is occupied by the selected shopping and specialty goods retailers in the Market Area. Based on average sales per square foot of \$250, this space generates the capacity for \$5.0 million in sales in the Market Area. Subtracting this supply from demand results in excess demand for \$18.5 million. Dividing the average sales per square foot of retail space, we calculate demand for about **80,000 square feet in the Market Area**.
- With a projected increase of 4,270 people in the Market Area to 2020, we project excess retail demand to increase to **100,000 square feet in the Market Area in 2020**.
- Downtown Mound will compete with other areas in the Market Area for new shopping and specialty retail stores over the next five years and no one location will be able to capture 100% of the retail demand. Because some shopping and specialty goods retailers will seek unique space versus that offered by typical shopping centers, we believe that Downtown Mound can capture a greater percentage of Market Area demand than for neighborhood retail. We estimate that Downtown Mound can capture 15% of the shopping/specialty retail demand from the Market Area or **12,000 square feet in 2013**. Because of the projected increase in population by 2020, we estimate **15,000 square feet** of shopping/specialty retail demand in Downtown Mound in 2018.

TABLE 30
DEMAND FOR SPECIALTY RETAIL SPACE
DOWNTOWN MOUND
2013 to 2020

	2013	2020
Demand		
Population	38,419	42,692
(times) Annual Per Capita Expenditures	x \$2,044	x \$2,191
(equals) Total Market Area Expenditures	= \$78,528,436	= \$93,538,172
(minus) Approx. Leakage Outside Market Area (80%)	- \$54,969,905	- \$65,476,720
(equals) Total Estimated Demand	= \$23,558,531	= \$28,061,452
Supply		
Existing Specialty Retail Space in Market Area	20,000	20,000
(times) Average Sales per Square Foot ²	x \$250	x \$250
(equals) Total Estimated Annual Sales in Market Area	= \$5,000,000	= \$5,000,000
Net Market Support		
Excess Demand (Demand minus Supply)	= \$18,558,531	= \$23,061,452
Supportable Retail Space		
(divided by) Average Sales per Square Foot ²	\$230	\$230
(equals) Total Additional Space Supportable in Market Area	= 80,689	= 100,267
(times) Amount Capturable by Downtown Mound	x 15%	x 15%
Total Demand for Additional Retail Space in Downtown (in sq. ft.)	= 12,103	= 15,040
¹ Leakage is equal to the estimated amount of retail dollars spent outside the market areas. ² From <u>Dollars and Cents of Shopping Centers</u> , Urban Land Institute. Sources: ESRI Inc. <u>Dollars and Cents of Shopping Centers</u> , Urban Land Institute Maxfield Research Inc.		

Total Retail Demand

Combining demand for additional neighborhood retail and shopping/specialty retail space results in total demand in Downtown Mound **for an additional 17,100 to 18,400 square feet in 2013, increasing to 30,600 to 34,500 square feet by 2020.**

No one site or development would be able to capture all of this demand. We estimate that the City could capture 50% of the retail demand with most of that demand focused on the Downtown, **or 8,550 to 9,200 square feet in 2013, increasing to 15,300 to 17,250 square feet in 2020.**

Retail Findings and Recommendations

Key findings of the research for retail development in the Downtown are:

- Since 2003, existing businesses in Mound have expanded and built new space including the grocery store, hardware store, Walgreens and some others. Other service businesses have relocated to new space or have left the area. Although there has been a net increase the amount of retail space dedicated to these businesses, interviews with local businesses owners indicated that the customer base has increased only modestly.
- Mound has primarily neighborhood businesses that provide for most of the daily needs of the local household base. If it is not found in Mound, then most households will travel further to a location where there is a higher concentration of retail, primarily to the Ridgedale area or beyond.
- New retail space in Mound is attractive and occupied. Older retail space is partially occupied and some of the older retail space has converted over to primarily service businesses that may or may not be retail-oriented. At this time, there is an excess supply of retail space in Mound.
- While older retail space often provides lower lease rates attractive for new start-up businesses, below market lease rates also may lead to properties that are struggling financially and/or have fewer reserves for upgrades.
- Strong retail businesses are less likely to locate in centers that are vacant or experiencing deferred maintenance because of the potential signal that may give to customers. Although new retail can be supported in the community, vacant space that is undesirable often remains vacant for longer periods of time.
- New businesses to the community should enhance the existing mix of businesses not duplicate it. Although competition is generally good, too much of the same type of business that is not sufficiently differentiated will often divide the customer base among them and could cause all of the businesses to struggle financially.
- High average household incomes and projected growth to the west will continue to provide additional customers for Downtown Mound.
- The Lost Lake Channel that connects the Downtown with Lake Minnetonka is an amenity that creates the potential to attract some specialty retailers who seek unique locations. To date however, the Channel has not optimized its potential to attract visitors to the Downtown. This could be because there is not a destination that people want to come to. A destination use in the Downtown along with increased promotion of Downtown's attributes is needed to encourage visitors to make the extra effort up the Channel.

- The Dakota Trail offers, we believe, a stronger opportunity to attract regular visitors to Mound than perhaps the Channel.
- The research indicates that most potential retailers will be smaller in size (under about 3,000 square feet) and they will primarily be oriented to serve the local population base.

Appropriate Types of Retail in Downtown Mound

The greatest retail demand in Downtown Mound is for stores serving the local population with goods and services they purchase more frequently (“neighborhood retail”) and this segment is essentially being served in Mound today by existing businesses.

Mound continues to be underserved with eating establishments. The new café/bistro that has just broken ground will add to the food service mix. Residents continue to want more restaurant variety and a full-service sit down restaurant that would serve at least beer and wine with a meal.

Other comments received through interviews include a moderately priced gift store, a shoe store, health and wellness products, sporting goods equipment and teen/young adult clothing i.e. (Main Street Outfitters, Heartbreaker or similar).

Examples of the types of retail that have potential in the Downtown District are listed in Table 31, along with the median size (square feet) for each type of store. The table identifies some types of retail outlets that we believe would enhance the mix in the Downtown and not cannibalize store sales of existing businesses to a significant degree. While competition can be good, allowing the retail market to balance itself often does not work and can wreak significant havoc on a small Downtown’s fragile economy.

<p>TABLE 31 RETAIL USES BY MEDIAN SIZE OF STORE POTENTIAL RETAILERS FOR DOWNTOWN MOUND June 2013</p>			
Retail Uses:	Median Sq. Ft.	Retail Uses:	Median Sq. Ft.
Neighborhood-Oriented		Specialty Retail	
Cards & Gifts	2,000	Women's Clothing	4,000
Restaurant with Liquor	3,500	Arts & Crafts	2,200
Cosmetics/Beauty Supplies	1,250	Teen Clothing	4,000
Specialty food	1,950	Day Spa	2,000
Frozen Yogurt	1,500	Decorative accessories	1,650
Sporting Goods	5,000	Eyeglasses-optician	1,400
Tailor	900	Shoes	2,500
Tanning Salon	1,250	Hobby	2,800
Weight Loss Center	1,300	Home accessories	2,000
		Photographer	1,200
		Picture Framing	1,250
		Dance Studio	2,500
<p>Sources: Urban Land Institute: Dollars and Cents of Shopping Centers Maxfield Research Inc.</p>			

In addition to retail stores, some professional service businesses will seek out retail space. These include businesses such as a bank, travel agent, financial planner, insurance agent, etc.

Retail Lease Rates

To be attractive to potential neighborhood-oriented tenants, new retail space in the Downtown is likely to require net lease rates of between \$18.00 and \$22.00 per square foot. Format and location are factors in determining the lease rate to be paid.

Locations for New Retail

Demand was calculated for a total of about 30,600 to 34,500 square feet of retail space in the Mound Trade Area by 2020. Because of limited land and the fact that no one location or project can capture 100% of demand, we estimate that Downtown Mound could capture approximately 9,200 square feet as of 2013, increasing to 17,250 square feet by 2020.

The Mound Harbor District will not be able to capture all of demand for retail in Downtown Mound over the next five years. There are other parcels with excellent access and good visibility in the Downtown that will also be appealing to retailers.

Introduction

This section of the report calculates the potential demand for new office development in Downtown Mound by examining employment and business growth trends, office market conditions in the surrounding area and the existing supply of office space in the Mound Market Area.

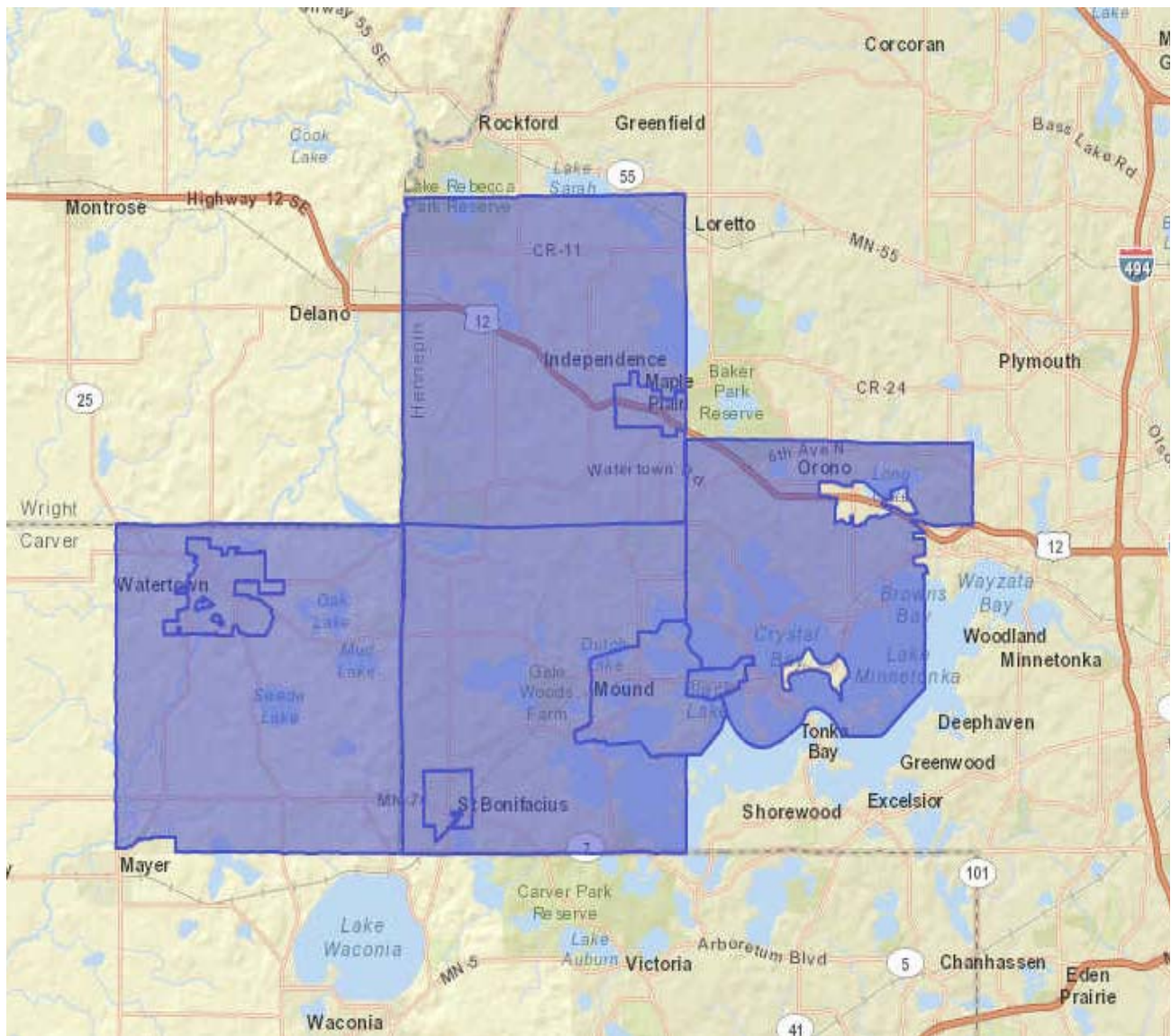
Market Area Definition

The majority of demand for office space in Downtown Mound will be from businesses serving the growing local household and business base. These users include insurance agents, attorneys, architects, graphic designers, real estate agents, accountants, financial planners, banks, dentists, chiropractors and medical offices. Most are small businesses with fewer than 10 employees, requiring spaces of less than 2,000 square feet. In addition, there is potential for Downtown Mound to attract small professional businesses, including those that are likely to have a local franchise and may want to operate a local affiliate office in the area. Mound and the surrounding communities tend to have a higher proportion of executives and owners of white collar businesses. As shown previously however, many of these individuals currently commute outside of Mound for their work and/or have a home office from which they operate their business. Businesses that may seek to locate an office in the Downtown would be those that tend to have high customer volumes where customers seek them out and usually visit them at their place of business. This includes real estate agents, accountants, health care professionals, attorneys and financial advisors.

Mound's potential to attract larger office users (i.e., corporate headquarters) is limited because of the lack of available land and limited high profile sites and distance from a major freeway.

The map on the following page represents the Market Area from which new office development in Downtown Mound would draw the majority of its tenants. The Office draw area is the same as Mound's Retail draw area.

Mound Office Draw Area



Employment and Business Growth

Overall Employment Growth

Table 32 presents total employment growth trends and projections in the Market Area from 2000 to 2030. Table 33 shows the estimated percent of total employment that would likely occupy office space. The figures were compiled by Maxfield Research Inc. using data from the Metropolitan Council, Minnesota Department of Employment and Economic Development and the US Bureau of Labor Statistics.

OFFICE MARKET ANALYSIS

The following are key points from Tables 32 and 33.

TABLE 32 EMPLOYMENT GROWTH TRENDS AND PROJECTIONS MOUND OFFICE MARKET AREA 2000 to 2030											
Metropolitan Council		Estimate	Projection			Change					
2000	2010	2013	2020	2030	2000 to 2010		2010 to 2020		2010 to 2030		
					No.	Pct.	No.	Pct.	No.	Pct.	
Employment											
Mound	1,811	1,253	1,247	1,380	1,450	-558	-30.8	127	10.1	70	5.6
Rem. of Market Area	5,803	6,713	6,797	7,860	9,010	910	15.7	1,147	17.1	1,150	17.1
Total	7,614	7,966	8,044	9,240	10,460	352	4.6	1,274	16.0	1,220	15.3
Sources: Bureau of Labor Statistics; MN DED; Metropolitan Council											

Sources: Bureau of Labor Statistics; MN DEED; Metropolitan Council

- The Market Area added 352 jobs (a 4.6% percent increase) between 2000 and 2010. This growth increased the total number of jobs in the Market Area to 7,966 in 2010. Mound however, lost employment during the period, dropping from 1,811 jobs in 2000 to 1,253 jobs in 2010. From 2010 to 2020, the Market Area is forecast to add 1,274 jobs (a 16% increase). Of the projected growth of about 1,274 jobs in the Market Area during this decade, 127 new jobs (10% of all new jobs in Market Area) are projected to be located in Mound.
- Table 33 shows that in 2000, 17% of the jobs in the Market Area were estimated to be jobs that required office space, or about 1,323 jobs. That percentage decreased just slightly by 2010 to 16%. The proportion of office jobs to all employment is expected to stabilize this decade and in the Market Area, is anticipated to remain the same, at 16%. However, across the Twin Cities Metro Area, office employment is expected to rise over time, increasing to potentially about 30% of all jobs. The result is that the Market Area lost office jobs during the 2000s, but is expected to gain 218 office jobs between 2010 and 2020.

TABLE 33 OFFICE JOB GROWTH TRENDS AND PROJECTIONS MOUND OFFICE MARKET AREA 2000 TO 2020								
	Metro Council		Projection		Change			
	2000	2010	2020	2030	2000 to 2010		2010 to 2020	
					No.	Pct.	No.	Pct.
Total Jobs	7,614	7,966	9,240	10,460	352	4.6%	1,274	16.0%
Office Jobs*	1,323	1,282	1,500	1,675	-41	-3.1%	218	17.0%
% office jobs	17%	16%	16%	16%	--	--	--	--

*Office jobs include jobs primarily in the Finance, Insurance, Real Estate and Government Sectors and a portion of the Services Sector.

Sources: Metropolitan Council; MN DEED

- Office space sizes are starting to decrease, at least among major companies. Previously, the industry standard was approximately 200 square feet of office space per employee. We have reduced this figure to 180 square feet of office space to reflect what we project will be a decrease in the amount of office space per employee as companies become more efficient in terms of their space planning. Therefore, projected growth of 218 office jobs between 2010 and 2020 would result in an estimated 39,240 square feet of office space needed to accommodate these new employees. The actual amount of office space needed, however, would likely be less, because a portion of the office jobs would be from people working from home offices and some typical office users will choose to locate in retail space.

Growth of Businesses that Primarily Occupy Office Space

Table 34 shows the number of businesses by size of business (number of employees) in the industry sectors (NAICS) that are typical office users. These include Information; Finance & Insurance; Real Estate, Rental & Leasing; Professional, Scientific, & Technical Services; Management of Companies & Enterprises; and Health Care & Social Assistance. The data are for Zip Code 55364 (which includes Mound and Minnetrista) and three other Zip Codes that encompass an area roughly the same as the Market Area.

The data in Table 34 is for 2011, the most current year available, and is from the U.S. Department of Commerce; County Business Patterns. Business growth in these sectors is an important indicator of total demand for office space and the size of businesses provides an indication of the type and sizes of office spaces required. In addition to businesses in these sectors, a small amount of office demand will be generated from other sectors, including government agencies. The follow are key points from Table 34.

- The six business categories in the table contain a total of 217 businesses, with most (89, or 41%) being in the Professional, Scientific & Technical Services category – which includes law, accounting, and finance. This figure represents a growth of 42% since 2003. As shown, 89% of Professional, Scientific, and Technical businesses had fewer than five employees with the largest firm having between 20 and 49 employees.
- Of the 217 businesses in the table, 80% had fewer than five employees, 17% had between five and 49 employees, and 3% had 50 or more employees. Based on this information, it appears that the majority of office users in the area would require smaller spaces and it is likely that many of the smallest businesses are single workers working out of their homes. They may have a larger company to which they are affiliated in some manner. Assuming that office employees occupy an average of 180 square feet of office space (including common areas), most companies in the area would need less than 1,000 square feet, and only a few would need more than 2,000 square feet.

OFFICE MARKET ANALYSIS

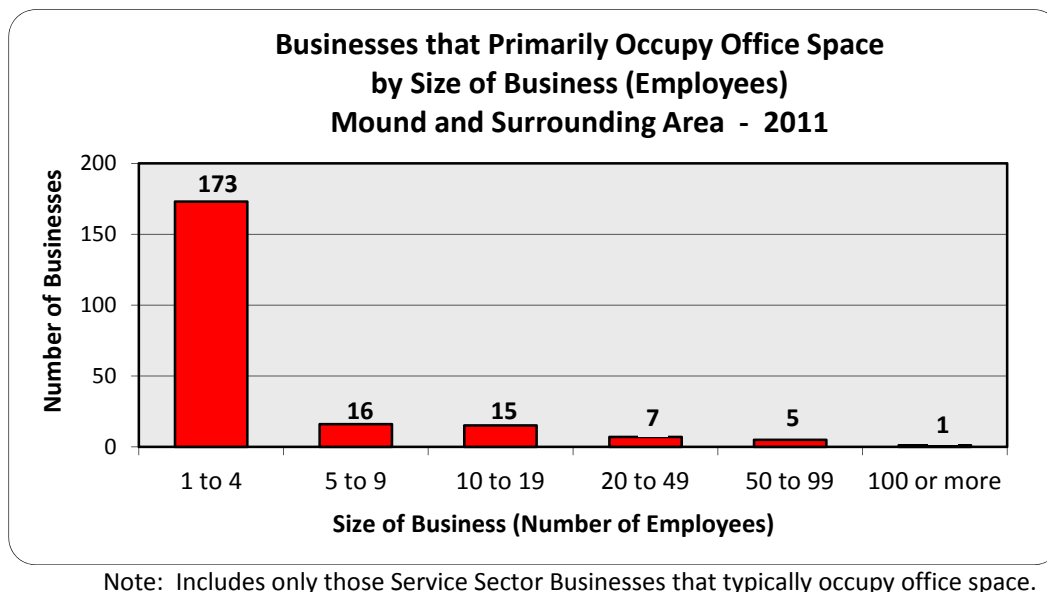
TABLE 34
BUSINESSES BY INDUSTRY AND SIZE OF BUSINESS
MOUND OFFICE MARKET AREA
2011

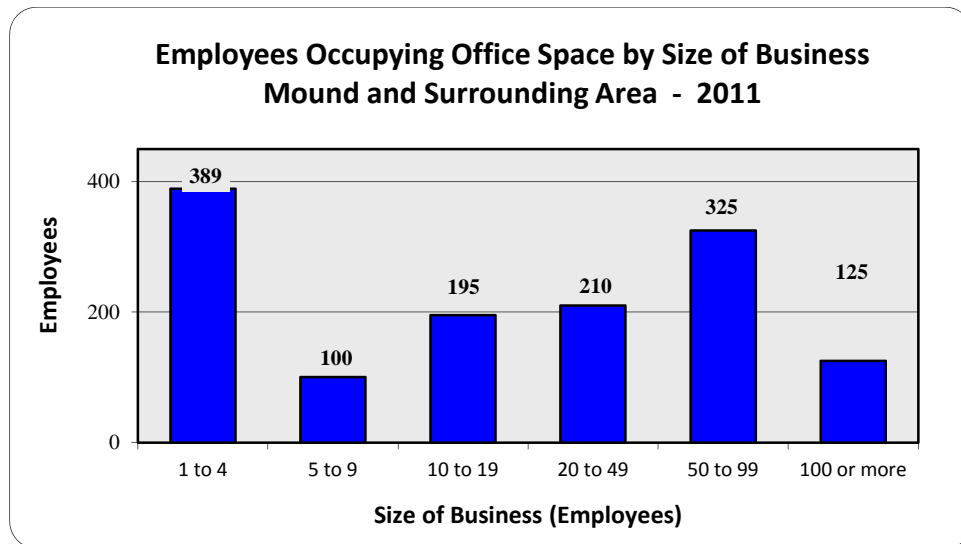
	Information		Finance & Insurance		Real Estate & Rental & Leasing		Prof., Scientific & Tech. Services		Mgmt of Companies & Enterprises		Health Care & Social Assistance		Total	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Mound (Zip Code 55364)														
1 to 4	3	-	13	81.3	15	100.0	55	91.7	-	0.0	13	81.3	99	86.1
5 to 9	3	-	1	6.3	-	0.0	2	3.3	-	0.0	2	12.5	8	7.0
10 to 19	-	-	2	12.5	-	0.0	3	5.0	1	50.0	-	0.0	6	5.2
20 to 49	-	-	-	0.0	-	0.0	-	0.0	-	0.0	1	6.3	1	0.9
50 to 99	-	-	-	0.0	-	0.0	-	0.0	1	50.0	-	0.0	1	0.9
100 to 249	-	-	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	0	0.0
250 or more	-	-	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0	0	0.0
Total	6	-	16	100.0	15	100.0	60	100.0	2	100.0	16	100.0	115	100.0
Area Total*														
1 to 4	8	66.7	25	83.3	30	93.8	79	88.8	9	56.3	22	57.9	173	79.7
5 to 9	3	25.0	2	6.7	1	3.1	3	3.4	3	18.8	4	10.5	16	7.4
10 to 19	1	8.3	2	6.7	0	0.0	6	6.7	2	12.5	4	10.5	15	6.9
20 to 49	0	0.0	1	3.3	0	0.0	1	1.1	0	0.0	5	13.2	7	3.2
50 to 99	0	0.0	0	0.0	1	3.1	0	0.0	2	12.5	2	5.3	5	2.3
100 to 249	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	2.6	1	0.5
250 or more	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	12	100.0	30	100.0	32	100.0	89	100.0	16	100.0	38	100.0	217	100.0

* Includes Zip Codes 55364 , 55384, 55375, 55388

Sources: Bureau of the Census: County Business Patterns; Maxfield Research Inc.

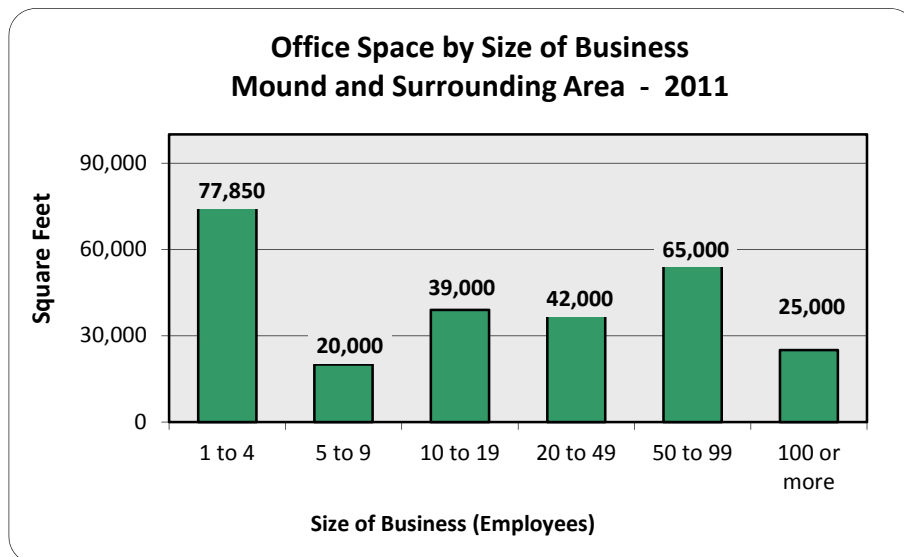
- Zip Code 55364, which includes Mound, most of Minnetrista and the southwestern portion of Orono, had a total of 115 businesses among the business categories in the table. Eighty-six percent (86%) of these businesses had fewer than five employees. If these small businesses average 2.5 people per business, they would need an average of about 500 square feet of office space, based on 180 to 200 square feet per person. Some of these small businesses are likely located in home offices and may prefer not to have a more formal office space unless they regularly see clients that come to them. There were 16 Health Care and Social Assistance businesses in Zip Code 55364. Most of these businesses are small in size, with 13 of the 16 businesses having less than five employees.
- Although about 87% of businesses have fewer than 10 employees, businesses with fewer than 10 employees account for only about 37% of the total employees. The following charts highlight this. The following two charts show that businesses with 20 or more employees accounted for 5% of the total businesses, but 46% of the total employees.





Note: Includes only those Service Sector Businesses that typically occupy office space.

- The chart below shows an estimate of the total amount of office space needed to accommodate the businesses listed in Table 34 by size of business. The figures assume that employees occupy an average of 200 square feet of office space. The chart shows that about 191,000 square feet is needed to accommodate all of the businesses. However, many of the businesses with between one and four employees are likely operated from private homes, thereby reducing total office needs to closer to 134,000 square feet.



- Based on 180 to 200 square feet of office space per employee, businesses with between five and nine employees would require about 1,000 to 1,700 square feet of office space, businesses with between 10 and 19 employees would require 1,800 to about 3,800 square feet, and businesses with 20 to 49 employees would require between 3,600 and 9,800 square feet. We believe that office-related businesses with fewer than 20 employees will constitute the greatest demand for office space in Downtown Mound.

Current Office Market Situation in the Mound Market Area

Table 35 displays information on seven selected office buildings in or near Mound, including two in Wayzata and two in Spring Park. Information on these buildings was collected by Maxfield Research Inc. through the MNCAR database in May 2013. The table displays the building address, age, total space, square feet available, lease rate and tenant mix. The following are key points from the table.

- The table displays information on eight multitenant office buildings in Mound, Wayzata and Shorewood. The types of buildings shown are generally smaller in size (less than 20,000 square feet) and have tenants that are representative of the types of businesses that are likely to use office space in Mound. Two of the buildings have been recently renovated and updated. Businesses such as insurance agents, financial advisors, attorneys, real estate agents, accountants, small professional service businesses, small medical offices and other small health practitioners are most likely to be a market for office space in Mound. Tenant information was not available for some of the buildings on the table. The majority tend to serve a local customer base.
- Except for the two buildings in Mound, the remaining buildings shown are all located east of Mound. Downtown Wayzata currently has a substantial number of smaller size buildings that have office space available. As the Metro Area continues to grow to the west, Mound may be able to capture a portion of office space demand as the household and business bases increase. We note however, that demand for office space in the short-term is expected to be modest. Existing spaces may be upgraded, but demand for new multitenant office space in Mound at rents in excess of \$15.00 per square foot will be limited.
- The sizes of the office buildings shown on the table range from 4,000 square feet to 33,330 square feet. Commerce Place currently has about 16,000 square feet of space available as office but is only marketing 7,000 square feet. Other spaces available range in size from 860 to 10,000 square feet. The vacant space available could accommodate businesses with sizes ranging from about three employees to 50 employees. A space size of 4,000 square feet could accommodate approximately 20 employees. Though the majority of businesses will have five employees or less, we project that this is about the size of some businesses that would be attracted to new office space in Downtown Mound. Larger businesses with 50 or more employees are likely to seek traditional office space with good highway access and visibility that has adjacent surface parking for their employees.
- Commerce Place, located in Mound, is the largest office building in Mound, but this space can also be easily converted to retail space. The retail portion of the center has 7,000 vacant square feet and owners are seeking a lease rate of \$15.00 net per square foot.

OFFICE MARKET ANALYSIS

TABLE 35
SELECTED OFFICE BUILDINGS
MOUND AND SURROUNDING AREA
May 2013

Building/Address	Year Built	Total Space/ SF Available	Net Lease Rate	Tenants	
407 Lake Street E. 407 Lake street Wayzata	1960	4,000 1,333	\$20.00 Net	Minnetonka Travel	
Commerce Place 2200-2238 Commerce Blvd. Mound	1986	40,358 7,000	\$10.00 Net	Christopher and Banks Happy Garden V & S Jewelry and Gifts Garagedale	
Beacon Bank Building 19765 Highway 7 Shorewood	1996	19,800 860	\$22.00/ \$23.00 Net	Beacon Bank Architecture Firm	
Laurent Building 155 East Lake Street Wayzata	2001	4,000 4,000	\$18.00- \$26.00 Net		
201 Building 201 E. Lake Street Wayzata	1997	33,330 10,000	\$19.00- \$20.00 Net	Burnet Title Coldwell Banker Burnet Heislett Associates Ps Real Estate Services	Sawhorse Designers/Builders Vanderlinde Group Wayzata Appliances Inc. Robin Carlson Real Estate
Steiner Office Building 3610 Co. Rd. 101 S. Wayzata	1986	10,278 5,307	\$15.00 Net	August Financial Consulting Counselor Realty Solyst Gass	
Commerce Building 2321 Commerce Blvd. Mound	1957	6,300 6,300	\$6.00-\$10.00 Net	Law Offices Tonka Carpet Care	
Linden Park 6140 Lake Linden Dr. Shorewood	1915R	5,565 1,693	\$14.00 Net	Watertown Pharmacy Catalyst Medical Clinic Pro Rehab Carver Eye Care	West Chiropractic Curves for Women Sully's Deli & Coffee Mound Psychological Services

R=Renovated

Source: Maxfield Research Inc.

- Net rents in the office buildings range from \$10.00 per square foot to a high of \$26.00 per square foot. Because of construction and land costs, most new space would require rents at a minimum of about \$18.00 per square foot net to be financially feasible.
- In Mound, office rents are low as office space has been difficult to lease and Commerce Place lost its medical tenant when they relocated to another center. For good quality space, we estimate that tenants would be likely to pay about \$14.00 to \$18.00 per square foot but likely not much higher. It may be beneficial to consider renovating existing space with some upgrades and pushing the rents modestly versus constructing new office space at this time.
- It is our opinion that new office space would have to be a build-to-suit situation where the user would essentially build and self-occupy the space or with some modest assistance from the City through a TIF District.

Planned and Pending Office Developments

At this time, we are not aware of any pending office developments in the Market Area. The Promenade of Wayzata is planning on incorporating a small amount of office space into the development, but no specifics have been publicized at this time.

Projected Demand for Office Space

Earlier sections of the *Office Market Analysis* focused on factors that influence the demand for office space, including business and employment growth and current market conditions. The amount (in square feet) of additional office space supportable in the Downtown is based on projected office employment growth in the Market Area which is expected to remain somewhat weak in the short-term. In addition, most of the new business growth has occurred as a result of the downturn in the employment market with many people going out on their own after losing their jobs. A substantial portion of these individuals work out of their homes. The demand calculations are presented in Table 36 and are summarized in the following bullet points.

- The Market Area is projected to add 218 jobs that will require office space between 2010 and 2020. Our growth projection is based on the assumption that new office space will be constructed in the Market Area to support business and employment growth.
- Using an industry standard of 180 square feet of office space per employee, on average, we project demand for 39,240 square feet of office space in the Market Area between 2010 and 2020 to accommodate office employment growth. This figure assumes that a variety of office spaces in a variety of locations will be available to meet the needs of prospective tenants.

OFFICE MARKET ANALYSIS

- The primary types of tenants that will be attracted to new office space in the Market Area and in particular, Downtown Mound, will be small businesses serving the local household and employment base – such as insurance agents, Realtors, and financial planners. In all, we estimate that Downtown Mound can capture 15% to 20% of the total office demand in the Market Area over the next ten years, or 5,900 to 7,900 square feet.
- Some of the demand for office space in Downtown Mound will be accommodated by traditional retail space. Users such as dental offices and chiropractors, in particular, and also some personal service businesses sometimes prefer the higher visibility that retail space provides. Other demand will be accommodated by home office or other types of space. We estimate that **100% of office demand Mound can be captured by office space in and/or near the Downtown or 5,900 to 7,900 square feet.**

TABLE 36 PROJECTED DEMAND FOR OFFICE SPACE MOUND MARKET AREA 2010 to 2020			
Projected increase in office jobs in the Market Area, 2010 to 2020		218	new jobs
(times) 180 square feet of office space per employee	x	180	sq. ft./employee
(equals) Projected demand for office space in Market Area, 2010 to 2020	=	39,240	square feet
(times) Estimated capture rate for Mound	x	15% - 20%	
(equals) Estimated total space supportable in Mound	=	5,886 - 7,848	square feet
(minus) Office space built since 2000	-	0 - 0	square feet
(equals) Remaining total space supportable in Mound	=	5,886 - 7,848	square feet
(times) Percent of demand capturable by the Downtown		100% - 100%	
(equals) Total Demand for Office Space in the Downtown		5,886 - 7,848	square feet

- Because of the smaller size and characteristics of the Downtown, the base of potential office tenants is primarily smaller companies. On average, these businesses will have fewer than five employees and require about 1,500 square feet or less.

Office Conclusions and Recommendations

Most new office users in Downtown will be smaller businesses (2 to 10 employees needing 500 to 2,000 square feet, on average) many of which will be businesses serving the local population and business base, such as medical/dental offices, attorneys, accountants, insurance agents, financial advisors, travel and real estate agents. There will also be demand for small professional businesses with a client base extending beyond the Market Area. Our research indicates that there are a larger number of home-based white-collar businesses in the western Lake Min-

netonka Area and a portion of these businesses may be interested in new office space – particularly office suites (which are geared toward businesses with only one to three employees).

Type of Space

Although there are a variety of office space types that may be appealing to these small businesses, the experience has been that most prefer to be located in traditional office space or in office suites, rather than office condominiums which have not been as successful in the Twin Cities market. Depending on the type of business, some prefer first floor retail space if they have a large walk-in clientele.

Because of the limited amount of office demand identified for the Downtown, we recommend that office development focus on providing traditional office space as a component of a larger development that may include retail and/or residential space.

Leased office space: The majority of potential office users will be attracted to leased office space (excluding office suites) in either a stand-alone building or as a component of a mixed-use building. Nearly all of the medical offices will seek this type of space, as will many of the service businesses, such as attorneys, accountants, financial planners, etc.

Retail Space: Some businesses that are traditionally considered users of office space will seek first-floor retail space. These include personal service businesses that sometimes prefer the higher visibility that retail space provides. While not all of these potential types of businesses in Mound Harbor Renaissance will seek retail space, some will prefer to be in higher visibility locations where walk-in traffic is important.

Lease Rates

To be competitive, new office space will need net lease rates of between \$16.00 and \$18.00 per square foot. This is about the minimum rent needed for new construction to be financially feasible.

Absorption

We estimate that the amount of office space proposed could be developed within a period of five years. We recommend that the office space be located in a small freestanding building or in a mixed-use building as the first floor of the property.

Introduction

Maxfield Research Inc. updated market conditions for hotels situated in the western suburbs of the Twin Cities. The analysis includes a review of the overall performance (occupancy, room rate, and revenue per room) of limited-service and full-service hotels in the communities of Waconia, Long Lake, Chanhassen, Chaska, Plymouth, Eden Prairie and Minnetonka. Data was collected for all projects, and includes the year opened, number of rooms, occupancy and room rates.

Historical Trend Analysis – Mound Area Limited Service Hotels

An Historical Trend Report from Smith Travel Research (STR) was acquired to identify occupancy rates, room revenue, and average room rates for the limited-service facilities located in and near the Market Area. STR is an independent research firm specializing in comprehensive analysis of the lodging industry.

TABLE 37 PROPERTIES SURVEYED IN HOTEL TREND REPORT MOUND MARKET AREA May 2013	
<u>Chanhassen</u>	<u>Eden Prairie</u>
Holiday Inn Express & Suites (2004/89)	Extended Stay America (1998/104)
County Inn & Suites (1995/122)	Hilton Garden Inn (2000/97)
Americinn (1998/77)	TownePlace Suites (1998/103)
	Springhill Suites (2001/119)
	Baymont Inn (1987/121)
	Fairfield Inn & Suites (1997/90)
	Hyatt Place (1997/126)
<u>Chaska</u>	<u>Minnetonka</u>
Best Western Plus (1997/81)	Hampton Inn (1990/127)
Super 8 Chaska (1990/29)	Holiday Inn Express & Suites (1997/93)
<u>Waconia</u>	<u>Long Lake</u>
Americinn Waconia (2007/61)	AmericInn (2001/41)
Sources: Smith Travel Research, Inc.; Maxfield Research Inc.	

Table 37 displays limited-service and extended stay properties reporting hospitality information to STR. These properties serve as the sample from which information was gathered and aggregated. A total of 19 properties was included in the survey, but data was reported for only 16 properties. These properties have a total of 1,790 rooms or an average size property of 94 rooms. Properties vary in size and those located in small size communities

such as Long Lake, Waconia and Chaska have, on average, fewer rooms, ranging in size from 29 to 81 rooms.

Occupancy Rates, Room Rates, Revenue per Room

Table 38 displays STR's aggregate data regarding occupancy rates, average room rates, and revenue per room. The key findings from the table are:

- *Occupancy rate* is determined by dividing the number of total room nights available by the number of rooms filled. The occupancy rate of the selected properties peaked in 2007 at 63.7%, before experiencing a steady decline until 2011 when occupancy picked up again and climbed from 59.7% in 2010 to 62.5% in 2011. The decrease in occupancy rates was a result of the slow economy and a decrease in travel (business and leisure travel, but primarily business travel). Occupancy in 2012 climbed again to an average for the year of 63.5%.
- The average nightly room rate peaked in 2008 at \$98.22 and then decreased to \$87.74 in 2010 and then increased again in 2011 to \$92.29 up to \$92.39.
- *Revenue per room* is determined by dividing the total room nights available by the total number of dollars obtained for occupied rooms. RevPar decreased from \$59.98 in 2007 to a low of \$50.07 in 2009 before climbing again to \$58.65 as of the end of 2012.

TABLE 38 LIMITED-SERVICE FACILITIES OCCUPANCY, ROOM RATE, REVENUE MOUND MARKET AREA 2007 through 2013 (April)												
	Year-To-Date Averages							Annual Change				
	2007	2008	2009	2010	2011	2012	2013*	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Occupancy Rate	63.7%	60.9%	55.8%	59.7%	62.5%	63.5%	55.5%	-4.4%	-8.4%	7.0%	4.7%	1.6%
Room Rate	\$94.10	\$98.22	\$89.76	\$87.74	\$91.29	\$92.39	\$90.34	4.4%	-8.6%	-2.3%	4.0%	1.2%
Revenue Per Room	\$59.96	\$59.79	\$50.07	\$52.41	\$57.10	\$58.65	\$50.15	-0.3%	-16.3%	4.7%	8.9%	2.7%
* - Year to date, April 2013												
Source: Smith Travel Research												

Table 39 displays historical supply and demand for lodging at limited service hotels in the area between 2007 and April 2013. Because data for 2013 is only a partial year, analysis is focused on annual data from 2007 through 2012. Key characteristics of the findings are discussed below:

HOTEL MARKET ANALYSIS

- Room nights occupied decreased from 405,087 room nights in 2007 to 364,864 room nights in 2009 before increasing again to 390,664 nights in 2010 and continuing an upward trend. Occupied room nights increased from 408,877 in 2011 to 414,730 in 2012, surpassing the previous peak total in 2007.
- The newest hotel included in the survey is the Americinn in Waconia with 61 rooms. The Americinn in Long Lake opened in 2001 and the Holiday Inn Express & Suites is also relatively new in Chanhassen (2004).
- The Long Lake Americinn generally has a high occupancy level during summer weekends, as guests from outside the Twin Cities are in the area for weddings, reunions or other functions in the Lake Minnetonka area.
- A day of the week analysis indicates that hotels in the survey group are busiest on the weekends during the summer months but busiest during the week on Tuesdays and Wednesdays during the fall, winter and spring months. This supports a finding that many of these hotels accommodate business travelers during the week and leisure travelers on the weekends. Occupancy is lowest on Sundays during the late fall and winter months, averaging about 35%. The highest is nearly 90% for the summer weekends and 90% for the summer on Tuesdays and Wednesdays.
- Hotels rely on high traffic counts for exposure and close proximity to room-night generators (i.e. high business concentrations) or freeway traffic. For Downtown Mound, 2012 traffic counts on Highway 15 are 11,700 vehicles per day, and on Highway 110 are 10,100 north and 8,400 south of Highway 15, respectively. These numbers cannot be aggregated. For comparison, traffic counts on Highway 12 in front of the Americinn are currently 9,800 to 11,200 now that the bypass is complete.

TABLE 39
HISTORICAL ROOM SUPPLY AND DEMAND TRENDS
MOUND AREA HOTELS - LIMITED SERVICE AND EXTENDED STAY
2007 through 2013 (April)

	2007		2008		2009		2010		2011		2012		2013*	
	No.	Occup.	No.	Occup.	No.	Occup.	No.	Occup.	No.	Occup.	No.	Occup.	No.	Occup.
Annual Totals														
Room Demand	405,087		398,182		364,864		390,664		408,877		414,730		119,242	
Room Supply	635,536	63.7%	654,080	60.9%	654,080	55.8%	654,080	59.7%	653,712	62.5%	653,350	63.5%	214,800	55.5%
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Annual Change														
Room Demand	N/A	N/A	-6,905	-1.7%	-33,318	-8.4%	25,800	7.1%	18,213	4.7%	5,853	1.4%	N/A	N/A
Room Supply	N/A	N/A	18,544	2.9%	0	0.0%	0	0.0%	-368	-0.1%	-362	-0.1%	N/A	N/A
* - Partial Year; January through April														
Sources: Smith Travel Research, Inc.; Maxfield Research Inc.														

Demand Analysis – Limited Service Hotels

This section summarizes the findings regarding the demand for additional lodging in the Market Area and presents recommendations regarding the type of lodging concept supportable, along with several key marketing considerations.

Most demand for limited-service hotel rooms in Mound will come primarily from leisure travelers, with very limited demand from regular business travelers.

Optimum occupancy for most hotel facilities is between 65% (full-service) and 75% (limited-service). However, occupancy rates for the group of hotels surveyed showed that during the week, especially in the winter months, occupancy rates are somewhat low in the 45% to 50% range. Weekends in the summer months have the highest occupancies ranging from 80% to 90% on Friday and Saturday nights. Limited-service facilities generally need higher occupancy rates than full-service facilities because full-service hotels typically provide a variety of facilities (restaurants, meeting rooms, etc.) that generate additional income. Full-service hotels, however, generally need a greater number of rooms to support ancillary facilities such as meeting and banquet spaces and full-service restaurants.

Table 40 shows our calculation of the demand for additional limited-service hotel rooms in the Market Area from 2012 through 2020. The table calculates this demand by first analyzing the number of room nights required in the area to obtain a 2012 occupancy rate of 75%, based on the actual room night demand in 2012. Second, we project the room night supply needed to accommodate our projected growth in room night demand from 2012 through 2020, based on obtaining an occupancy rate of 65%. Finally, the projected additional room supply generated from 2012 through 2020 is added to the room supply that would have been needed in 2012 to create an occupancy rate of 65%. Dividing the resulting room night supply supportable through 2020 by 365 days per year results in the number of rooms supportable through 2020.

We use only the room night supply from the Americinn in Long Lake and the three hotels in Chanhassen which are the closest to Mound. Table 40 shows that the Market Area had an estimated 120,085 room night supply in competitive limited-service hotels in 2012. A room night demand of 78,055 would have been needed for the competitive hotels to have a 65% occupancy rate. According to data from STR, demand at the competitive hotels in 2012 was very near this figure at about 75,053 room nights (for an occupancy rate of 62.5%). Thus, there was an excess supply of 3,000 room nights in the Market Area in 2012.

TABLE 40
PROJECTED LIMITED-SERVICE ROOM DEMAND
MOUND AREA
2013 through 2020

Existing Room Supply			
Room supply in 2012 among competitive facilities			120,085
(times) Equilibrium occupancy rate	x	65%	
(equals) Equilibrium room demand	=		78,055
(minus) Room demand in 2012	-	75,053	
(equals) Excess room supply in 2012	=		3,002
Additional Room Demand from 2003 through 2007			
Projected increase in room night demand from 2013 through 2020		750 to	1,125
(divided by) Minimum occupancy requirement	÷	65%	65%
(equals) Projected additional room night supply supportable from 2013 through 2020		488 to	731
Projected Additional Demand versus Existing Supply			
Projected additional room night supply supportable from 2013 through 2020		488 to	731
(minus) Excess room supply in 2012	-	3,002	0
(equals) Projected number of room nights supportable through 2020	=	-2,515 to	731
(divided by) 365 days per year	÷	365	365
(equals) Projected number of rooms supportable through 2020	=	-7 to	2
(minus) Additional rooms opened in Market Area (weighted competitiveness)	=	58 to	58
(equals) Remaining number of rooms supportable through 2007		-65	-56
(times) Percent of demand supportable in Mound	x	25%	25%
(equals) Projected number of rooms supportable in Mound through 2013		-16 to	-14
Sources: Smith Travel Research, Inc. Maxfield Research Inc.			

Pending Developments

Two pending hotel and small conference center facilities have been proposed that would be developed in the surrounding area. The first is in Excelsior and would include a boutique hotel with about 58 rooms and additional conference meeting space. The development would be located overlooking Excelsior Bay in Excelsior, just off of and visible from Highway 7. The developer has received some preliminary approvals from the City, but conflicts over a land swap have placed the project on hold and it has moved forward slowly. The developer would finance the project using his own funds. Discussions are ongoing with the City regarding some infrastructure improvements that would have to be made along with the development and the financial structure for these improvements has not been finalized.

A private family is proposing to develop a boutique hotel as part of The Promenade at Wayzata development which is currently underway. The boutique hotel is proposed to have between 50 and 70 rooms, but is planned to be one of the final phases of the development. This component is not likely to proceed until sometime in 2015 or later.

Recommendations

Our analysis found demand would likely be high for rooms on summer weekends in Mound, as weddings and other events that occur around Lake Minnetonka drive demand for hotel rooms in the area, particularly at the Long Lake AmericInn. Weekend demand in the winter may also be quite strong, as ice fishing, snowmobiling and hockey tournaments in the area are popular in the winter months.

Weeknight occupancy is somewhat elusive, as even with a substantial improvement in the economy, the City of Mound and surrounding area is not a significant base for businesses of great size. Mound's location several miles west of the Interstate 494 beltway inhibits its attraction to business travelers necessary for significant weeknight occupancy.

The lack of demand in Mound can be further supported by the lack of hotel room night generators presently found in the area. Hotel developers seek several of the following to be located near a potential site, including office buildings, recreational facilities, hospitals, airports, colleges, and major manufacturing plants. Mound has very few of these demand generators. Additional development (including business development) in the Downtown can increase demand however, by adding businesses and increasing the visibility of the City for people visiting the area for recreation.

We do not recommend the construction of a hotel at this time. Leisure travel and business travel is rebounding and there is renewed interest in hotel development. However, we would wait to confirm the development and performance of the proposed hotels in Excelsior and in Wayzata before expending significant resources to solicit a hotel for the Downtown. Even the strong Eden Prairie submarket is just now recovering from the economic downturn. The hotel market is on the rebound, but is not strong enough yet to consider adding significant new product to the market.

Current Market Area occupancy trends for hotels have been declining since 2001, and the economy has yet to generate growth sufficient to reverse this trend. Hotels are generally performing at a 60% overall occupancy rate, below the ideal rate of 70% to 75% for limited service hotels.

Current market conditions indicate that travel is again increasing because of the economic recovery. However, job growth, the primary generator of hotel usage during the week continues to fluctuate. Leisure travel has also increased but remains down from pre-recession totals.

A hotel in Mound is likely to experience moderate to strong demand during the late spring, summer and early fall months and then drop significantly during the remainder of the year. Interviews with business owners also indicated some seasonality to retail sales in the Downtown. In addition, there are currently two hotels proposed for the immediate area, one in

Downtown Wayzata and one in Downtown Excelsior. Both are proposed by private individuals that will leverage their personal wealth to finance the development of these facilities.

We recommend that Mound wait to determine the potential impact of these new hotels on the market for additional rooms in the Downtown. As additional development occurs and as residential and commercial growth resumes, demand for a hotel may increase to a level that would be sufficient to support a modest size property of about 40 rooms. The greatest factors however, in determining sufficient demand remain the need for weeknight occupancy and occupancy during the winter months.