Retail Node Comparative Analysis and Mixed-Use Case Study for Grand Avenue

Findings and Recommendations

Prepared for Summit Hill Association
March 9, 2021
Comparative Analysis and Mixed-Use Case Studies

**Purpose:**
Assist Summit Hill Association with development of neighborhood plan

- Retail node analysis of the East Grand Avenue corridor and five comparable commercial nodes.
- Case studies of recent mixed-use developments in the area.

**Defined Grand Avenue Trade Area**

- 7-Minute Drive-Time is used
- 5-Minute Drive-Time – grocery
- 15-Minute Drive-Time – regional retail
- Leakage is estimated to be 30%
## Retail Space Demand Calculation, 2020-2025

<table>
<thead>
<tr>
<th>Calculation</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Consumer Demand, 2020 to 2025</td>
<td>$135,511,913</td>
</tr>
<tr>
<td>Minus Percentage Sales Leakage Outside of the Trade Area</td>
<td>30%</td>
</tr>
<tr>
<td>Equals Consumer Demand for Retail Sales</td>
<td>$95,000,000</td>
</tr>
<tr>
<td>Percent of Consumer Demand Spent at Brick and Mortar Retail</td>
<td>80%</td>
</tr>
<tr>
<td>Demand from Brick and Mortar Retail</td>
<td>$76,000,000</td>
</tr>
<tr>
<td>Divided by Average Sales per Square Foot</td>
<td>$300 - $400</td>
</tr>
<tr>
<td>Equals Demand for New Retail Space in PMA</td>
<td>253,000 - 190,000</td>
</tr>
<tr>
<td>Minus Existing Vacant Retail Space</td>
<td>90,000</td>
</tr>
<tr>
<td>Minus New Retail Space Planned and Proposed</td>
<td>176,000</td>
</tr>
<tr>
<td>Equals Demand for New Retail Space</td>
<td>-13,000 - -76,000</td>
</tr>
</tbody>
</table>

Source: ESRI; LOCi Consulting LLC

- Current vacancy issues on Grand Avenue will not be resolved by consumer spending growth alone.
Consumer spending is projected to grow, driving demand for retail space in key categories

- Consumer demand will be driven by:
  - Grocery
  - Restaurants
  - Apparel and Accessories
  - Furniture and Home Improvement
  - Electronics
  - Household and Personal Care

### Forecasted Growth in Consumer Spending in the Trade Area, 2020-2025

- Household and Personal Care
- Furniture and Home Improvement
- Apparel and Accessories
- Electronics
- Restaurants
- Groceries
- Books
- Sporting Goods
- Toys
- Pets
- Pharmacy
- Liquor
- Sporting Goods
- Books
- Toys
- Pets
- Electronics

Source: US Census Bureau; ESRI; LOCI Consulting LLC
But e-commerce will make up a greater portion of consumer spending.

- E-commerce is estimated to be about 16% of retail spend
- Forester Research is projecting that total e-commerce will hit 25% by 2025
- For our analysis, we used 20%

Source: Quarterly Retail E-commerce Sales, US Census Bureau; ESRI; LOCi Consulting LLC
And there is a good deal of vacant and new retail square footage coming into the Grand Avenue Trade Area between 2020 and 2025.

- Existing vacancy data is from CoStar.
- Likely underrepresents actual vacancy because it is only space actively listed.
- Planned and proposed space comes from mixed-use case studies.
Coming out of the pandemic and into the recovery, there is a good deal of uncertainty in the market

• “We don’t know what inning we are in,” said a developer.

• “This last year was terrible,” said one broker. “We have worked so hard to build something in the cities of Minneapolis and Saint Paul.”

• “We are in this period of market pricing recovery. The markets are totally in a place where they are trying to find out the right price points to support landlords and tenants,” a broker said.

• Still fallout expected as stimulus funds run out and we see a second round of businesses closing

• Landlords trying to determine which retailers will come out on the other side and what concessions to allow

• Consumer spending could take off with pent up demand

• Or could be restrained as job impacts work their way through the market.

• Civil unrest caused by the death of George Floyd at the hands of Minneapolis police and potential problems related to the trials.

• “There’s a new focus and love for small businesses [in the pandemic]. We always loved them. But we didn’t support them as much as we should have. Our dollar is a vote,” said a retail consultant. “It remains to be seen how they are going to look going forward.”

• “We never loved them. But we didn’t support them as much as we should have. Our dollar is a vote,” said a retail consultant. “It remains to be seen how they are going to look going forward.”
### Key Retail Trends for 2021 and Beyond

1. The coronavirus pandemic permanently changed the way consumers shop  
2. Weak and struggling retail concepts will continue to disappear from the market  
3. Large general merchandise players like Amazon, Target, Walmart, and Costco will build on gains they have made during the pandemic  
4. Grocery and convenience retail will continue to be viewed as an essential anchor for retail nodes  
5. Direct to consumer brands and online-only retailers will continue to look for traditional brick and mortar space to leverage their consumer relationship  
6. E-commerce will continue to grow but will experience growing pains  
7. Consumers will be financially stressed from the pandemic and that is bad for retailers  
8. Rapid changes in technology will mean even more dramatic changes to retail in the future
1. Grand Avenue is a unique retail node with assets that will continue to make it successful

2. Civil unrest around the death of George Floyd has become a problem for the cities of Saint Paul and Minneapolis, generally

3. The economic turmoil that came with COVID-19 pandemic is not over

4. A few stakeholders said that a new Lund’s and Byerly’s grocery store would drive retail traffic and improve the area

5. Urban retailers are looking for creative ways to reach their customers
8. Many of the stakeholders believe property taxes limit retail opportunities on Grand Avenue, especially for smaller retailers.

9. Parking on Grand Avenue works well, generally.

10. But changes in the way restaurants and retail conduct business will transform parking needs.

11. Consumers and landlords love small businesses and want them to succeed.

12. Attracting and keeping small businesses on Grand Avenue can be a challenge.

13. Other than serving as a cheerleader and coordinating stakeholders, there are no easy solutions for the district council.
14. Mixed-use projects can be a way to create marketable restaurant and retail space on Grand Avenue.

15. In some cases, cities have required multifamily projects to include commercial space, and filing that space can be difficult.

16. More residential units and taller building heights are often necessary to make the financials work.

17. Mixed-use projects with affordable housing could be an option for smaller scale projects, but the financing these projects can be difficult.
Comparative Retail Node Analysis
Comparative Retail Node Analysis—Grand Avenue

Strengths
- Grand Avenue has a brand
- Unique with historic homes and commercial buildings unlike other areas
- Legacy as an upscale retail area.
- Compared to other retail nodes in the Metro Area, on-street parking is relatively convenient
- Close to demand drivers that are attractive to retailers—downtown Saint Paul, the Xcel Energy Center, and institutions of higher education

Weaknesses
- Not well connected to the Metro Area’s transportation infrastructure
- It is a long retail node
- Parking can be a challenge during busy
- Many commercial structures that are becoming obsolete
Comparative Retail Node Analysis – Demographics

8  Total Trade Area Population, 2020

Source: US Census Bureau; ESRI; LOCi Consulting LLC

11  Median Household Income in Trade Area, 2020

Source: US Census Bureau; ESRI; Loci Consulting LLC
Comparative Retail Node Analysis – Retail Commercial Real Estate

21 Total Retail Square Footage in the Retail Node from CoStar

Source: CoStar; LOCi Consulting LLC
Comparative Retail Node Analysis – Retail Commercial Real Estate

**Vacancy Rate for Retail Space in the Retail Node from CoStar**

- Grand Avenue Node: 8.1%
- Ford-Cleveland Node: 3.3%
- Snelling-Selby Node: 0.3%
- West Seventh-Grand Node: 3.3%
- Setby-Dale Node: 3.3%
- 50th-France Node: 12.0%

**Average Retail Rent Rates in the Retail Node from CoStar**

- Grand Avenue Node: $32.88
- Ford-Cleveland Node: $24.39
- Snelling-Selby Node: $33.08
- West Seventh-Grand Node: $20.19
- Setby-Dale Node: $20.60
- 50th-France Node: $31.80

Source: CoStar; LOCi Consulting LLC
Comparative Retail Node Analysis – Mix of Retail

2. Apparel and Accessories Mix at Profiled Retail Nodes

3. Grocery, Pharmacy, Liquor, and Convenience Mix at Profiled Retail Nodes

Source: Database USA, ESRI, LOCI Consulting LLC
Comparative Retail Node Analysis – Mix of Retail

4 Restaurant Mix at Profiled Retail Nodes

5 Specialty Retail Mix at Profiled Retail Nodes

*Percentage of establishments

Source: Database USA; ESRI; LOCI Consulting LLC
Mixed-Use Case Studies

- Detailed data on these projects in the study
Completed Projects, 2015-2020

- There were 10 completed mixed-use projects near Grand Avenue between 2015 and 2020
Projects Under Construction

- There are five projects under construction
Projects that are Planned or Proposed

- There were nine projects planned or proposed
Mixed-use projects under construction, approved, and planned have been increasing size and scale

<table>
<thead>
<tr>
<th>Completed Projects</th>
<th>Projects Under Construction, Planned or Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Number of Units</strong></td>
<td><strong>Average Number of Units</strong></td>
</tr>
<tr>
<td>• 128</td>
<td>• 185</td>
</tr>
<tr>
<td><strong>Average Number of Height of Building</strong></td>
<td><strong>Average Number of Height of Building</strong></td>
</tr>
<tr>
<td>• 5</td>
<td>• 7</td>
</tr>
<tr>
<td><strong>Average Square Footage of Commercial</strong></td>
<td><strong>Average Square Footage of Commercial</strong></td>
</tr>
<tr>
<td>• 10,650</td>
<td>• 13,733</td>
</tr>
<tr>
<td><strong>Average Units per Acre</strong></td>
<td><strong>Average Units per Acre</strong></td>
</tr>
<tr>
<td>• 107</td>
<td>• 215</td>
</tr>
<tr>
<td><strong>Average Square Footage of Commercial per Unit</strong></td>
<td><strong>Average Square Footage of Commercial per Unit</strong></td>
</tr>
<tr>
<td>• 125</td>
<td>• 73</td>
</tr>
</tbody>
</table>
Recommendations

1. Consider removing the East Grand Avenue overlay requirement on building height and building footprint

2. Replace the overlay requirements with detailed design guidelines for mixed-use projects

3. Consider partnering with Lund’s and Byerly’s on their mixed-use proposal to get the project approved

4. Consider partnering with developers at the Dixie’s Restaurant site to get their mixed-use project approved

5. Establish a development working group made up of Summit Hill Association and Grand Avenue Business Association members, along with broker and developer partners to promote vibrant mixed-use development along Grand Avenue

6. Establish a citywide “Future of Retail” working group that will promote and inform business needs in the post-COVID19 environment
Data Resources and Study Limitations

The data in this preliminary market analysis are compiled from a variety of sources, including interviews with city officials, property managers, and real estate salespeople, along with secondary demographic, economic, and competitive resources. Sources are identified in the tables and figures.

LOCi Consulting believes that these sources are reliable. However, there is no way to authenticate this data and information. LOCi Consulting does not guarantee the data and assumes no liability for any errors in fact, analysis, or judgement. The data in this analysis includes the most recent information available at the time of this analysis.

The findings, conclusions, and recommendations in this demand analysis are based on the best judgements and analysis at the time of the study. LOCi Consulting makes no guarantees or assurances that the projections or conclusions will be realized as stated.
Services:

• Market studies
• Demographic analysis
• Customer segmentation
• Market identification
• Market sizing
• Competitive analysis
• Geographic Information Systems (GIS) and site selection
• Data analytics

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