

***MEMORANDUM***

To: Ron Rankin  
City of Minnetonka

From: Dick Paik  
Bonz and Company, Inc.

Re: Glen Lake Commercial Area

Date: June 10, 2005

---

***INTRODUCTION and SUMMARY***

Since the closing of Kowalski's grocery store in October 2004, no full-service grocery store has operated in the Glen Lake area. During this time period, many businesses in the area report significant declines in business. This has raised questions regarding the area's prospects as a viable commercial center, and the City's appropriate policies thereto. In addressing this general issue, this memorandum focuses on the following specific questions:

1. Can the Glen Lake community support and attract a mid-size, full-service grocery store?
2. What are the community's prospects as a retail/service center?
3. How can mixed-use development formats featuring housing situated over ground-floor retail components contribute to the area?
4. How can the City of Minnetonka assist the private development community in promoting the area's commercial prospects?

In addressing these issues, after this introduction and summary, this memorandum begins with a discussion of general background factors in Section I, followed in Section II by a

description of prevailing real estate market conditions, and of retail market conditions in particular. The discussion in Section II then distinguishes *market* opportunities from *development* opportunities, and identifies key challenges for the area's prospects as a viable commercial center. Section III concludes with a summary of key findings, along with recommendations for the City.

### DEFINITIONS OF KEY TERMS

For the purposes of this document, the following definitions shall apply:

- “*The Subject Site*” shall refer to the site of the Glen Haven Shopping Center.
- “*The Glen Lake Area*” shall refer to the commercial area along Excelsior Boulevard between Woodhill Road on the east and Williston Road on the west.

### BRIEF SUMMARY

The following presents a brief summary of key findings and recommendations, presented in greater depth in Section III.

#### Market Findings and Development Potential

- The general regional market for groceries is well served by stores occupying locations superior to the Subject Site. Despite this, the local market within one mile of the Subject Site offers sufficient buying power to support a full-service grocery store.
- In addition to groceries, the local Glen Lake market offers other market opportunities for small-scale retailers.
- Notwithstanding its unserved market opportunities, the larger issue involves the Subject Site's *development* opportunity – its ability to attract shopping center developers or major grocery chains. Given the Subject Site's abundance of competition, its relatively poor access, the limited scale of the opportunity, and the availability of other preferable sites, the Subject Site is not likely to attract such development interest.
- While few retail developers would target Glen Lake as a preferred location, Glen Lake offers desirable sites for residential condominium and mixed-use projects. Consequently, these mixed-use concepts featuring condominiums situated above ground-floor retail space comprise the best vehicle for bringing high-quality retail development to the Glen Lake area.
- Increased densities of adjacent dwelling units can enhance market prospects for some businesses, but such developments would not *by themselves* generate spending sufficient to support new businesses.

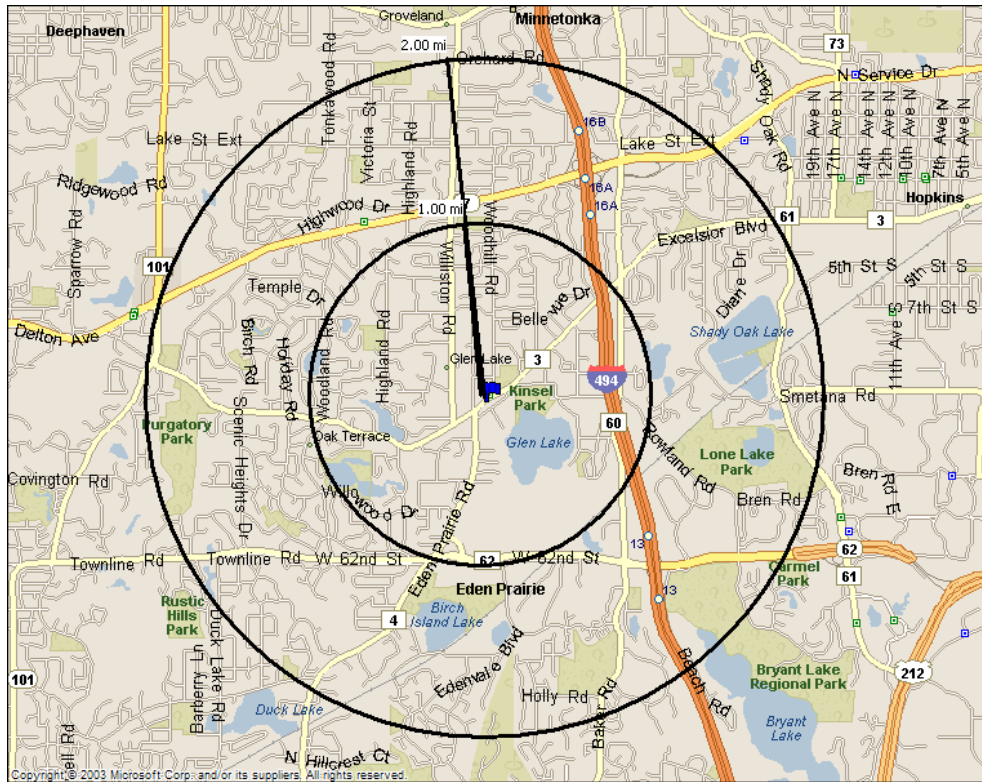
Recommendations

- In seeking to maintain Glen Lake's viability as a local commercial center, the City of Minnetonka must embrace mixed-use development concepts as its most efficient means for providing high-quality retail space.
- The City of Minnetonka should explore phasing and design alternatives that can enable it to proceed with new mixed-use developments without prematurely foreclosing potential opportunities to attract a grocery store as well as other types of development.
- Accept Density – Manage Traffic: While ongoing commercial viability will thrive on traffic, the City must manage traffic so as to protect the business as well as the residential environment.
- In seeking potentially complex solutions, the City should consider the use of City property located along the north side of Excelsior Boulevard to the west of the Subject Site.
- The City should consider potential enhancements or additions to civic amenities or facilities, and should also seek to retain other existing assets (e.g., U.S. Post Office, First Minnetonka City Bank, the Gold Nugget).
- Enhance Exposure: Exposure need not rely entirely on daily traffic; other sources of exposure might involve joint marketing efforts, publicly and privately sponsored festivals or other events, increased signage, new recreational facilities, and other such actions.
- Working in collaboration with partners such as the First Minnetonka City Bank or a local business association, the City should explore the creation of programs to assist prospective business operators.

## I. GENERAL COMMERCIAL CONDITIONS

Businesses in the Glen Lake area generally report that the core of their business is generated from within one- to two miles. As shown in Exhibit 1, a one-mile radius extends from the Subject Site to approximately Highway 62 on the south, Woodland Road on the west, just east of I-494 on the east, and almost to Highway 7 on the north. This area does not contain any other full-service grocery stores. Since 2000, data provided by Geovue, Inc. indicate that households in this area have increased from 2,500 to more than 2,725.

EXHIBIT 1 – ONE- AND TWO-MILE RADII



A two-mile radius from the Subject Site extends to the West Wind Shopping Center on the northwest, Orchard Road on the north, Shady Oak Road on the east, and into the northern parts of Eden Prairie. The area within this radius contains approximately 10,500 households. While West Wind shopping center contains the only substantial grocery store located within this radius, as discussed below in Section II.C, several locations just beyond the radius contain additional substantial retail centers.

**EXHIBIT 2— HOUSEHOLD GROWTH TRENDS, SELECTED AREAS**

|               | <u>2000</u> | <u>2004</u> | <u>Avg. Ann. Growth</u> |          |
|---------------|-------------|-------------|-------------------------|----------|
|               |             |             | <u>#</u>                | <u>%</u> |
| 1-Mile Radius | 2,504       | 2,725       | 55                      | 2.1%     |
| 2-Mile Radius | 9,964       | 10,534      | 143                     | 1.4%     |
| Minnetonka    | 21,393      | 22,757      | 341                     | 1.6%     |

*Source: U.S. Census; Geovue, Inc.*

Within the one-mile radius, the 2,700 resident households feature a median income of \$83,000 and thus supply ample buying power. Within the larger two-mile radius, approximately 10,500 resident households feature a similarly high median household income of \$83,600. These median household income figures exceed the corresponding figure of \$76,500 for the City of Minnetonka.

**EXHIBIT 3 -- MEDIAN HOUSEHOLD INCOMES, SELECTED AREAS**

|               | <u>Median Household Income</u> |
|---------------|--------------------------------|
| 1-Mile Radius | \$83,020                       |
| 2-Mile Radius | \$83,647                       |
| Minnetonka    | \$76,537                       |

*Source: U.S. Census; Geovue, Inc.*

Retailers in the area include a mix of independent retailers and small franchise retailers. Commercial net lease rates generally occupy a range of \$14 to \$16 per square foot. With the exception of the closed grocery store property in the Glen Haven Shopping Center, the local retail market continues to maintain high occupancies. The absence of a grocery anchor, however, has exerted significant losses. Most businesses owners report significant declines – in the range of 10 to 30 percent in some cases -- in business activity.

## II. RETAIL MARKET ANALYSIS

This section presents analyses of market demand for groceries and general retail goods and services.

### A. GROCERY INDUSTRY TRENDS

Recent evolution in the grocery industry has gravitated away from traditional supermarket models toward alternatives targeting (1) value, as exemplified by discount super centers such as WalMart or Super Target and smaller “dollar” stores; (2) high-end/gourmet models exemplified by businesses such as Lund’s, Kowalski’s and Whole Foods Market, and (3) smaller niche grocers such as Trader Joe’s, Aldi’s and natural food coops.

While conventional supermarkets maintain the largest share of grocery sales, industry experts expect this share to decline, while super centers and warehouse clubs claim increasing shares of grocery sales. As shown below, by 2008 the familiar supermarket formats (“supermarkets and combination stores”) are expected to sustain losses in their shares of the grocery market. At the same time, super centers and wholesale clubs are expected to increase their shares from 18 to nearly 26 percent of grocery sales.

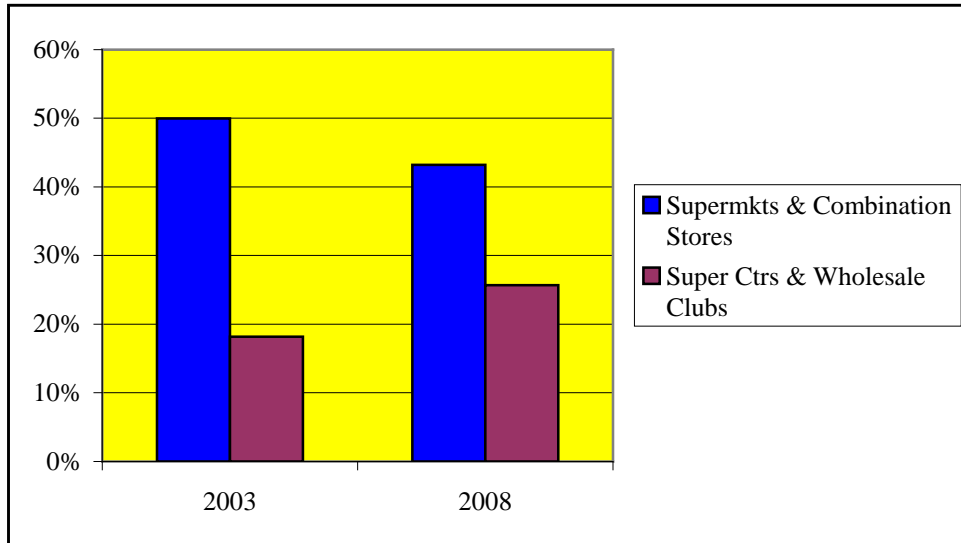
#### EXHIBIT 4 – PROJECTED GROCERY INDUSTRY SHARES

|                                      | Share of Grocery Industry |             |
|--------------------------------------|---------------------------|-------------|
|                                      | <u>2003</u>               | <u>2008</u> |
| Supermarkets and Combination Stores* | 50.0%                     | 43.2%       |
| Super Centers & Wholesale Clubs      | 18.2%                     | 25.7%       |

\* Combination stores are supermarkets with pharmacy departments.

Source: Food Marketing Institute; Willard Bishop Consulting, Ltd.

**EXHIBIT 4 (CONTD.) – PROJECTED GROCERY INDUSTRY SHARES**



In addition to the trends shown above, the grocery industry's share of food consumption has also declined. The National Restaurant Association states that restaurants now account for 47 percent of food expenditures (as compared to 25 percent in 1955) nationally.

Statistics for the City of Minnetonka reflect this trend. In Minnetonka, between 1998 and 2003 food/grocery sales declined while eating and drinking and general merchandise sales increased at annual rates of 7.6 percent and 5.1 percent, respectively. As a result, while food and grocery sales exceeded eating and drinking sales by \$35 million in 1998, by 2003 this gap had fallen to just \$3 million. General merchandise sales increased its gap during this period from \$155 million in \$230 million.

While a number of different factors account for these varying growth rates, the figures show that food and grocery stores have actually declined during a period of household growth; some if not all of this decline can be attributed to increased sales at the City's restaurants and general merchandise stores.

**EXHIBIT 5 – RETAIL SALES TRENDS, CITY OF MINNETONKA**

|                     | <u>1998</u> | <u>2000</u> | <u>2003</u> | <u>CAGR</u> |
|---------------------|-------------|-------------|-------------|-------------|
| Food/Grocery Stores | \$101.4     | \$100.6     | \$98.7      | -0.5%       |
| General Merchandise | \$256.9     | \$281.4     | \$329.4     | 5.1%        |
| Eating and Drinking | \$66.1      | \$73.5      | \$95.4      | 7.6%        |

Source: Minnesota Dept. of Revenue.

In general, even where households and incomes remain stable, traditional grocery store concepts face an increasing array of competitors.

**B. LOCAL GROCERY MARKET DEMAND**

The Glen Lake market furnishes demand that may be sufficient to support a full-service grocery store.

To illustrate potential market demand, the following tables present an “inflow/outflow” analysis for grocery (and other retail categories) spending and sales. This type of analysis measures local residents’ retail spending versus the sales captured by the retail stores in the same area. Where the former (local spending) exceeds the latter (sales at local stores), this indicates that local residents spend more of their money outside the market area than the area’s stores draw from non-local households; i.e., there is a net *outflow* of retail spending. Conversely, where local spending falls below local sales, this indicates that the area attracts a net *inflow* of spending from outside the local market.

In considering market capture rates, while factors other than location (e.g., specific product selection, type of purchase) drive many consumer spending decisions, most residents seek grocery stores within convenient range of their homes. As a result, most mature markets approximate a 100 percent market capture rate in the grocery category.

As shown in the exhibit, in the broader market defined as to include all of Minnetonka as well as Hopkins, Deephaven and Woodland, the grocery market achieves a 119 percent capture rate – and this likely represents an understatement, as grocery sales at the Super Target store at Highway 7 and CR 101 are counted under the “general merchandise” category. Thus, the regional demand for groceries is well served.

Within this region, however, the competitive stores draw most of their sales from households living within one to three miles. Primary competitors for the markets around Glen Lake include the Cub and Super Target on the west (both located at Highway 1 and CR 101), the Lund’s in Hopkins on the north, and Kowalski’s to the south (at Highway 5 and CR 4 in Eden Prairie). These are all located roughly two to three miles from the



Subject Site. Given the depth and breadth of this competition, a grocery store at Subject Site would need to derive most of its sales from households within one to two miles.

As shown in Exhibit 6, resident grocery spending amounts to \$19 million within the one-mile radius and \$70 million within the two-mile radius. In serving this demand, however, current grocery sales captured within these radii amount to just \$0.9 million and \$32.6 million, respectively. Thus, the local grocers capture less than five percent of the grocery market within the one-mile radius and 47 percent within the two-mile radius.

**EXHIBIT 6 -- LOCAL RESIDENT GROCERY EXPENDITURES VS. LOCAL GROCERY SALES, SELECTED AREAS (\$ MILLIONS)**

|   | <u>1-Mile</u> | <u>2-Mile</u> | <u>"Outer Ring"</u> | <u>Mtka/Hpkns Deephaven Woodland'</u> |
|---|---------------|---------------|---------------------|---------------------------------------|
| Local Spending at Food/Grocery Stores     | \$19.1        | \$69.7        | \$50.6              | \$205.3                               |
| Sales at Food/Grocery Stores <sup>1</sup> | \$0.9         | \$32.6        | \$31.7              | \$245.6                               |
| Net Inflow (outflow)                      | (\$18.2)      | (\$37.1)      | (\$18.9)            | \$40.3                                |
| Market Capture                            | 4.7%          | 46.8%         | 62.7%               | 119.6%                                |

<sup>1</sup> Sales exclude grocery sales at Super Target (categorized as a "General Merchandise" store).

Source: Claritas, Inc.; Geovue, Inc.; Bonz and Company, Inc.

In addition to low market capture rates, the volume of net spending outflow from the one-mile radius amounts to \$18 million. This volume by itself might be sufficient to support a full-service grocery store; if the store could capture a reasonable share of 50 percent of this grocery spending, this would amount to \$9 million per year, (\$173,000 per week); for the former (25,000 square foot) grocery building this would amount to a respectable \$360 per square foot.

Additional support from the outer part of the two-mile radius would further enhance the market demand.<sup>1</sup> A store at the Subject Site would face formidable challenges in achieving such penetration. Nonetheless, given the grocery spending of \$50.6 million

---

<sup>1</sup> It should be noted, however, that the data for this outer ring of the two-mile radius are distorted. While the exhibit shows a net outflow of \$37.1 million (which exceeds the outflow from the inner one-mile radius by \$19 million), these figures do not incorporate the grocery spending captured by the Super Target, which is located just outside the radius (and which falls under the "general merchandise" sales category). An interviewed grocery consultant finds it likely that the Super Target would achieve approximately this amount (\$19 million) in annual grocery sales. Thus, this ring probably does not sustain substantial net outflows.

from this area (total of \$69.7 million less \$19.1 million from the inner 1-mile radius), this market would enhance grocery sales at the Subject Site by \$1.5 million (an additional \$29,200 per week) if it could capture just three percent of this spending. This would bring the Subject Site’s achievable revenues to more than \$10.4 million (\$200,000 per week), which would amount to \$416 per square foot.

These figures indicate that, given a well-conceived concept capable of dominating its immediate market, the market would be sufficient to support a grocery store.

C. OTHER RETAIL NICHES

In addition to groceries, the local market features unserved demand in other, non-grocery retail categories. As shown below, the one-mile radius sustains net outflows in all but the broadly defined “miscellaneous” categories. The two-mile market area is also underserved in a broad range of categories. In general, while the broader market -- defined by the cities of Minnetonka, Hopkins, Deephaven and Woodland – attracts net spending inflows, this portion of Minnetonka sustains substantial outflows of consumer spending.

**EXHIBIT 7 – MARKET CAPTURE RATES IN SELECTED CATEGORIES**

|                     | <u>1-Mile</u> | <u>2-Mile</u> | <u>Mtka/Hpkns<br/>Deephaven<br/>Woodland'</u> |
|---------------------|---------------|---------------|---|
| Groceries           | 4.7%          | 46.8%         | 119.6%  |
| General Merchandise | 0.0%          | 16.7%         | 162.9%  |
| Apparel             | 0.0%          | 4.3%          | 141.7%  |
| Home Furnishings    | 5.3%          | 117.5%        | 145.3%  |
| Eating & Drinking   | 35.8%         | 50.5%         | 115.3%  |
| Miscellaneous       | 111.3%        | 250.3%        | 686.9%  |

*Source: Claritas, Inc.; Geovue, Inc.; Bonz and Company, Inc.*

Notwithstanding the generally underserved character of the local retail market, individual stores in the Glen Lake area have demonstrated an ability to attract shoppers from outside the local one- and two-mile radii. For instance, as shown previously, the ‘miscellaneous’ category captures substantial spending inflows. Within this broadly defined category, Exhibit 8 reveals dramatic variations among the different subcategories, and in the process illustrates that specific types of businesses located in the Glen Lake area have been able to draw from much broader, regional markets. For instance, retailers providing

sporting goods and flowers achieve substantial net inflows, while market demand for books, jewelry, hobbies/toys, and crafts are not served at all.

**EXHIBIT 8 -- MARKET CAPTURE IN SELECTED SPECIALTY RETAIL NICHES, 1-MILE RADIUS**

| <u>Subcategory</u> | <u>Spending per HH</u> | <u>Total Spending</u> | <u>Sales</u> | <u>Market Capture</u> |
|--------------------|------------------------|-----------------------|--------------|-----------------------|
| Sewing/Craft       | \$22                   | \$58,860              | \$0          | 0.0%                  |
| Sporting Goods     | \$322                  | \$877,695             | \$1,700,000  | 193.7%                |
| Book Stores        | \$239                  | \$650,839             | \$0          | 0.0%                  |
| Jewelry            | \$202                  | \$549,088             | \$0          | 0.0%                  |
| Hobby/Toy/Game     | \$155                  | \$423,520             | \$0          | 0.0%                  |
| Florists           | \$32                   | \$87,173              | \$400,000    | 458.9%                |
| Record/Tape/CD     | \$116                  | \$314,738             | \$0          | 0.0%                  |
| Liquor             | \$231                  | \$628,794             | \$800,000    | 127.2%                |
| Drug               | \$865                  | \$2,357,806           | \$0          | 0.0%                  |
| Stationery         | \$70                   | \$189,687             | \$0          | 0.0%                  |

Source: Claritas, Inc.; Geovue, Inc.; Bonz and Company, Inc.

Eating and Drinking: The market also sustains a net spending outflow in the eating and drinking category. This finding is not surprising; despite the restaurant industry's increasing share of food consumption – in Minnetonka and throughout the nation – the nearby supply of restaurants has not increased in recent years. This finding is also supported by anecdotal evidence that the existing Gold Nugget restaurant draws patrons from a broad portion of Minneapolis's western and southwest suburbs. Additional anecdotes and observations suggest that Minnetonka and the surrounding portion of the metropolitan area suffers a relative scarcity of restaurants and that among the existing restaurants in this region, very few offer a full-service model.

Despite the ability of individual stores in the Glen Lake area to draw non-local customers, the local supply of eating and drinking establishments within the one- and two-mile radii capture just 35 percent of local residents' eating and drinking expenditures. Given these figures and anecdotal support, this category offers another opportunity to address underserved market demand.

**EXHIBIT 9 -- LOCAL RESIDENT EATING & DRINKING EXPENDITURES VS. LOCAL SALES, SELECTED AREAS (\$ MILLIONS)**

|  | <u>1-Mile</u> | <u>2-Mile</u> | <u>Four Cities</u> |
|--|---------------|---------------|--------------------|
| Local Spending at Eating/Drinking Establishments | \$10.1        | \$36.7        | \$107.8            |
| Sales at Eating/Drinking Establishments          | \$3.6         | \$18.5        | \$124.3            |
| Market Capture                                   | 35.8%         | 50.5%         | 115.3%             |

Source: Claritas, Inc.; Geovue, Inc.; Bonz and Company, Inc.

Overall, the market comprising the one-mile radius around the Subject Site offers several underserved market niches. While stores serving many of these niches are not likely to seek locations such as the Subject Site, well-conceived commercial properties in the Glen Lake area could attract tenants providing a broad range of goods and services. Such would include:

- Eating and drinking concepts – and “quick serve” concepts in particular;
- Personal service providers involving optical care, chiropractors, etc.;
- Professional service providers (e.g., financial services, small medical offices);
- Miscellaneous specialty retailers such as Video/music stores, stationery stores, craft/hobby shops, and others.

**C. COMPETITIVE GROCERY ENVIRONMENT**

The preceding discussion demonstrates the strength of market demand for grocery stores and other retailers in the Glen Lake market. This section presents a brief discussion of competitive supply.

A grocery store at the Subject Site would face competition primarily from the following locations:

- Westwinds/7 Hi: Just two miles from the Subject Site, the intersection of highways 101 and 7 contains the Westwind Shopping Center anchored by Cub Foods, and the 7-Hi center, anchored by a Super Target. Together, these shopping centers contain nearly 500,000 square feet of retail space. According to a retail consultant, in recent years the Cub and Target have achieved combined annual grocery sales of roughly \$50 million. This site enjoys high traffic volumes (see Exhibit 8 below) and a status as a destination providing a critical mass and broad range of goods and services. Non-anchor stores include fast food and quick-serve restaurants and specialty retailers providing hardware, auto parts, liquor, stationery, electronics, drugs, and various personal and professional services.

A KMart occupies the southeast quadrant of the intersection; while this does not sell groceries, in the future this site may provide a redevelopment opportunity. At such time, this site will present a highly desirable location for additional commercial development.

- Prairie Village Mall: This 75,000 square-foot center occupies the northwest quadrant of the intersection of highway 5 and County Road 4 in Eden Prairie, three miles from the Subject Site. Kowalski's has served as the grocery store anchor since opening in 2004. Among the nearby competitive centers, Prairie Village enjoys the highest traffic volumes (see Exhibit 10 below), with an average daily traffic (ADT) counts of 50,000 to 57,000 vehicles on Highway 5. This property maintains full occupancy, with a number of high-end tenants. Another shopping center on the northeast quadrant of the intersection, however, features vacancies in five of its twelve spaces.
- Country Village: Three miles northeast of the Subject Site, this center contains a 43,000 square foot Lund's. The site is somewhat removed (on the north) from Highway 7, which carries an ADT of 28,000, and it does not contain a critical mass of other retailers. Nonetheless, this Lund's is a well-established competitor in the high-end grocery market.

An interviewed grocery expert estimates that all of these stores achieve substantially higher sales than the Subject Site did in its best years. Other nearby grocery locations include:

- Lake Winds coop grocery: Located at Minnetonka Boulevard and Highway 101, this natural foods coop grocer is in the process of moving from its current store to a larger, 22,000 square foot (estimated) space recently vacated by a SuperValue franchise (vacated in the fall of 2004). These types of stores typically achieve low market penetrations but pull from broadly defined geographical areas. This store is expected to compete for somewhat narrowly defined segments of the market. The coop concept is not likely to seek a location such as the Subject Site, as it anticipates the opening of a new 18,000 square-foot in Chanhassen in the fall of 2005.
- Driskill's/Hopkins: This store is located in downtown Hopkins. While ADT counts near this store fall below those in the Glen Lake area,<sup>2</sup> this store benefits from the critical mass of retail stores in Hopkins' downtown area, as well as a high density of residential units in its surroundings.

---

<sup>2</sup> Nearby ADT counts include 2,450 (12<sup>th</sup> Ave.), 3,300 (1st Street), and 6,700 to 7,500 (Mainstreet).

**EXHIBIT 10 -- SELECTED CHARACTERISTICS, COMPETITIVE RETAIL CENTERS**

| <u>Center/Location</u>        | <u>Miles fr. Subject Site</u> | <u>Total GLA (sq. ft.)</u> | <u>Grocery Anchor</u> |                 | <u>Avg. Daily Traffic</u> |                    |
|-------------------------------|-------------------------------|----------------------------|-----------------------|-----------------|---------------------------|--------------------|
|                               |                               |                            | <u>Store</u>          | <u>Size</u>     | <u>Primary Rte.</u>       | <u>2ndary Rte.</u> |
| Glen Lake                     | 0                             | 55,000                     | n/a                   | n/a             | 10,800 - 11,100           | 3,900              |
| West Wind Hwy 7/CR 101        | 2                             | 283,000                    | Cub                   | 63,000          | 39,000 - 41,000           | 20,900 - 23,300    |
| 7 Hi Hwy 7/CR 101             | 2                             | 211,000                    | Super Target          | 165,000 (total) | 39,000 - 41,000           | 20,900 - 23,300    |
| Country Village Hwy 7/CR 73   | 3                             | n/a                        | Lund's                | 43,000          | 28,000                    | 11,400             |
| Prairie Village Hwy. 5/CR 4   | 3                             | 75,000                     | Kowalski's            | 22,500          | 50,000 - 57,000           | 12,700 - 16,700    |
| Lake Winds Mtka Blvd/Hwy. 101 | 3                             | n/a                        | Lake Winds Coop       | 22,000          | 12,400 - 14,600           | 11,500             |

*Source: United Properties; National Research Bureau; Minnesota Dept. of Transportation; Bonz and Company, Inc.*

Notwithstanding the opportunity within the local (one-mile radius) market, the regional market is highly competitive. Moreover, in addition to existing competition, other locations may accommodate new competition for various types of commercial tenants in the future. In addition to sites at the Highway 7/CR 101 intersection, other potential development or redevelopment opportunities may be available near Highway 7 in Hopkins, off Shady Oak Road in the southeastern part of Minnetonka, and on undeveloped sites in Chanhassen and/or Eden Prairie.

In order to succeed in this environment, a grocery store would have to either (1) capture a specific niche and draw from a broad geographical market or (2) command a broad niche within a narrow geographical market. Given the Subject Site's access constraints as well as the competitive properties ringing the Subject Site's core one-mile radius, the former approach offers the more feasible alternative.

**D. DEVELOPMENT CONSTRAINTS**

The preceding analyses indicate that the Glen Lake market may offer underserved niches and opportunities for additional retail – and possibly grocery -- development.

Potential *market* opportunities, however, are distinct from *development* opportunities. In evaluating commercial development prospects, the more critical issue for the Glen Lake

area focuses not on the area's market opportunities, but rather on its ability to attract commercial developers/investors.

A number of factors constrain opportunities for development. These fall into three categories, discussed below.

1. Traffic/Access

Most grocery stores will target locations with traffic volumes of at least 20,000 vehicles per day. As shown previously in Exhibit 10, among the competitive sites discussed, Glen Lake features the lowest traffic volumes (the Hopkins/Driskill's and Lake Winds coop locations offer lower ADT, but these would not represent direct competition for a grocery store on the Subject Site). Moreover, with no connection to I-494, and limited land available for substantial new development, such volumes are not likely to increase substantially.

2. Scale of Opportunity

In selecting store locations, most grocery companies seek one or more of the following:

- Larger (than Glen Lake) markets containing 20,000 and more households;
- Affluent households: While Glen Lake offers a high-end income profile, median household incomes are even higher in the local radii around some competitive locations;

**EXHIBIT 11 -- HOUSEHOLDS AND HOUSEHOLD INCOMES WITHIN 1-MILE RADII, SELECTED AREAS**

|                 | <u>Households</u> | <u>Median Household Income</u> |                     |
|-----------------|-------------------|--------------------------------|---------------------|
|                 |                   | <u>2004</u>                    | <u>5-Yr. Growth</u> |
| Glen Lake       | 2,725             | \$83,020                       | 1.8%                |
| Lake Winds      | 1,562             | \$88,105                       | 2.3%                |
| Westwind/7 Hi   | 3,211             | \$86,463                       | 2.3%                |
| Prairie Village | 3,161             | \$79,943                       | 2.4%                |
| Country Village | 4,610             | \$47,005                       | 2.2%                |

Source: Geovue, Inc.

- A need to enhance or maintain market shares against competitors; and/or
- Lacking an opportunity in a broader market, a competitive position providing an essentially "captive" market (e.g., airport location, military base market, etc.).

3. Commercial Development Prospects

The Subject Site cannot satisfy the above criteria. Accordingly, it is unlikely at this time that any existing or other substantial grocery chain would seek a location at the Subject Site. New concepts may emerge as the industry continues to evolve, but at this time neither the City, the Subject Site owner, nor the Glen Lake community can rely on this occurrence.



E. RESIDENTIAL DENSITY ISSUES

In envisioning an alternative character for the Glen Lake commercial area, current development proposals feature residential development in varying attached configurations. While this analysis does not represent a housing feasibility analysis, appropriate comments address general condominium market conditions, the impact of increased residential density on nearby retailers, and various traffic issues raised by such development.

1. General Market

In recent years, a strong demand for condominiums in various urban settings has spread to suburban locations. Recent multi-family condominium developments have proven successful in locations such as Hopkins, Edina and St. Louis Park as well as in Minnetonka, and according to Maxfield Research, Inc., average condominium prices have increased from \$197,520 in 2000 to \$241,763 in 2004.

At this time, some developers report that sales to investors have declined. In addition, the prospect of higher interest rates may dampen market demand. In general, however, the condominium market remains healthy.

2. Support for Retail Business

Higher-density urban residential development concentrates household consumers and thereby helps support nearby retail businesses. In illustrating the extent of this support, the following brief presents two illustrative examples of the extent of support that retailers might derive from a hypothetical, adjacent or attached 250-unit condominium development.

*Hypothetical Grocery Example:* Given average annual household grocery spending of \$5,000, 250 new households would spend a total of \$1.25 million on groceries. Assuming that the attached grocery store could capture 60 percent of such spending, this would generate \$750,000 in “captured” sales. Such sales would not alone support a grocery store. Nonetheless, given prevailing sales of roughly \$7.8 million (which falls at the high end of sales achieved at the Driskill’s store), the hypothetical 250-unit development would enhance business volume by nearly 10 percent.

**EXHIBIT 12 -- CONDOMINIUM SUPPORT: GROCERY STORE HYPOTHETICAL**

|  |             |
|--|-------------|
| Household spending/yr.                       | \$5,000     |
| Households                                   | 250         |
| Total spending                               | \$1,250,000 |
| Potential Store Capture                      | 60%         |
| Captured Sales                               | \$750,000   |
| Base Level Sales<br>(based on \$150,000/wk.) | \$7,800,000 |
| <b>Impact</b>                                | 9.6%        |

*Hypothetical Restaurant Example:* Given average annual household restaurant spending of \$3,500, 250 condominiums would generate a total of \$875,000 in restaurant spending. Assuming a reasonable revenue target of \$350 per square foot, this spending would support roughly 2,500 square feet of restaurant space; this would probably contain one restaurant.

Realistically, however, no single restaurant – and no single restaurant district – could expect to capture 100 percent or even 50 percent of a household’s total restaurant expenditures. Given a capture rate of 25 percent, the district would capture \$218,750 in annual restaurant sales. Given the Glen Lake area’s prevailing sales of \$3.6 million (see Exhibit 9), this capture would enhance local restaurant activity by 6.1 percent.

**EXHIBIT 13 -- CONDOMINIUM SUPPORT: RESTAURANT HYPOTHETICAL**

| <u>Supportable Space Analysis</u>             |           |
|---|-----------|
| Household spending/yr.                        | \$3,500   |
| Households                                    | 250       |
| Total spending                                | \$875,000 |
| <b>Supportable Space</b><br>(@ \$350/sq. ft.) | 2,500     |

| <u>Impact Analysis</u>     |             |
|----------------------------|-------------|
| Potential District Capture | 25.0%       |
| Captured Sales             | \$218,750   |
| Base Level Sales           | \$3,600,000 |
| <b>Impact</b>              | 6.1%        |

These scenarios present hypothetical but reasonable illustrations; they illustrate that while a fairly large, 250-unit condominium development would not *by itself* support nearby ground-floor retailers, a development of this magnitude would nonetheless significantly enhance the local market local for such businesses.

3. Traffic Issues

The various scenarios for the Glen Lake commercial area each raise different traffic issues. While a traffic analysis falls beyond the scope of this document, the City should consider the following:

- Retailers and retail developers seek exposure to high traffic volumes.
- Higher-density residential development generates roughly 6.5 daily vehicle-trips per unit. In comparison, grocery stores attract roughly 100 daily vehicle-trips per 1,000 square feet. Thus, while a 250-unit condominium would generate 1,625 daily vehicle-trips, a 25,000 square-foot grocery store would attract 2,500 daily vehicle-trips.
- Traffic must be managed. In any development scenario, the Glen Lake commercial area is likely to sustain increased traffic – generated by residences, businesses or both. Recognizing that traffic volumes can exert negative impacts on the residential neighborhoods, the City must take new steps (e.g., stop lights, curb cuts, turn lanes) to better manage new traffic.

### **III. SUMMARY FINDINGS AND RECOMMENDATIONS**

#### **A. SUMMARY OF FINDINGS**

The following summarizes the preceding analyses regarding market and development opportunities:

- Market Opportunity: The local market has the potential to support a full-service grocery store. A grocery store at the Subject Site would face formidable competition. In targeting the market within one mile of the site, however, the local store possesses a competitive advantage. While major grocery chains will be able to identify preferable locations, given a clear understanding of the local market (within one mile) and a well-conceived business plan, a grocery store could succeed at this location.
- Market Opportunity: In addition to groceries, the local Glen Lake market offers other retail market opportunities. These include various specialty niches as well as eating and drinking. Given a suitable site with high visibility, new retail development could attract quality tenants in independent as well as franchise businesses.
- Development Challenge: Despite potential market opportunities, the site is not likely to attract retail developers or major grocery chains. Such entities will perceive:
  - An abundance of nearby competition serving the markets within two and three miles of the Subject Site;
  - The limited size of the market (approximately 2,700 households) within one mile of the Subject Site;
  - The area's lack of visibility and its low traffic counts; and
  - The availability – or potential availability – of other preferable development sites.
- Development Challenge: While retail developers will not target Glen Lake as a preferred location, residential developers will find the location desirable for its setting in an affluent area and its proximity to recreational uses and commercial goods and services (e.g., bank, retail businesses). Overall, the site will prove more attractive to residential developers than to retail/commercial developers.
- Residential Density Issue: Increased densities of adjacent dwelling units can enhance market prospects for some businesses, but such developments would not by themselves provide spending sufficient to support new businesses.

B. RECOMMENDATIONS

In seeking to maintain a commercial role for the Glen Lake area, the City should consider the following recommended regulatory policies and active roles.

1. Public Policy Recommendations

- Embrace mixed-use concept: In seeking to maintain Glen Lake's role as a local retail service center, the City of Minnetonka must embrace mixed-use development concepts as its most efficient means for attracting new investment and providing high-quality retail space. In creating ground-floor retail space, the developer must be able to provide ample parking as well as visual access from Excelsior Boulevard.
- Seek Combined Solutions: Currently envisioned outcomes for the Glen Lake commercial area involve either (1) a new grocery store and resumption of previous dynamics, or (2) realignment of the Glen Haven Shopping Center as well as the south side of Excelsior Boulevard to a multi-family residential/mixed-use district. These outcomes offer the simplest solutions.

The preceding findings indicate that the City cannot rely on the former option; the latter offers the feasible option. In addition to its feasibility, by addressing a larger area extending well beyond the Subject Site, this option gives other businesses and other potential investors a clear vision for the area, which provides assurances as to future land uses and configurations.

Notwithstanding these advantages, the City should explore more complex phasing and design alternatives. Such alternatives might enable the City to achieve an optimal solution: the City could set forth a plan to proceed with condominium/mixed-use projects while at the same time retaining its options for new contingencies (e.g., emergence of grocery operation), and other new ideas as market conditions evolve. This would not necessarily delay the pace of development, which would proceed in phases in any scenario. Moreover, in the event that such contingencies do not materialize, then additional residential/mixed-use projects could proceed. Overall, through this approach the City can attract a series of new residential/mixed-use projects without prematurely foreclosing opportunities for a grocery store and/or other innovative, incremental development in the area.

## 2. Active Steps

- Accept Density – Manage Traffic: While ongoing commercial viability will thrive on traffic, unmanaged or dangerous traffic will not suit any party's interests; the City must manage traffic so as to protect the business as well as the residential environment.
- Consider use of City land: In seeking potentially complex solutions, the City will need to offer assistance. One form of assistance may involve the use of City property located along Excelsior Boulevard. While various planning and design solutions may be considered, the use of such property may enable the City to more effectively satisfy the policy objectives set forth herein.
- Retain and enhance existing assets: Recreational amenities, civic uses and successful businesses (e.g., bank, bike/ski shop, Gold Nugget, post office) all comprise assets that give recognition to the area, draw visitors, and form many of the positive patterns that are valued in the community. The City should (1) consider potential enhancements or additions to civic amenities or facilities, and should also seek to (2) retain existing assets. The latter effort may require the City to minimize temporary or permanent dislocations (during redevelopment processes, for instance), and/or various forms of financial assistance.

## 3. Other Issues

- Enhance Exposure: Existing and prospective businesses in the Glen Lake commercial area would enjoy greater potential if the area received greater exposure. Exposure need not rely entirely on daily traffic; other sources of exposure might involve joint marketing efforts, publicly and privately sponsored festivals or other events, increased signage, new recreational facilities, and other such actions.
- Business Assistance Programs: While the Glen Lake commercial area currently maintains respectable commercial occupancy rates, the depth of demand for Glen Lake space appears modest. As tenants close or move, they may prove difficult to replace; many likely tenants would be independently operated businesses and/or entrepreneurs that may require assistance. Institutions such as the First Minnetonka City Bank, a local business association, and the City should collaborate to explore various programs that can assist small business operators.