



**Retail Node Comparative Analysis and
Mixed-Use Case Study for
Neighborhood Planning on Grand Avenue
Draft**

Saint Paul, Minnesota

Prepared for Summit Hill Association

March 9, 2021

Executive Summary

LOCi Consulting LLC was engaged by the Summit Hill Association District 16 Planning Council to provide retail real estate and mixed-use analysis for the district's comprehensive neighborhood planning process. LOCi Consulting conducted two basic analyses:

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

This executive summary presents key findings and recommendations. Details on these points can be found in the final section of this study.

Key Findings

- 1. LOCi Consulting forecasts retail space vacancy to increase between 2020 and 2025 on Grand Avenue.**

Based on our analysis of consumer spend, increases in e-commerce spending, and an overall increase in retail space supply in the Grand Avenue Trade Area, we project vacant retail space to increase by 13,000- to 75,000-square feet. That figure includes retail nodes across the Grand Avenue Trade Area, not just Grand Avenue. Based on the 90,000-square feet of vacant space currently in the Trade Area, this surplus would mean an increase of between 12% and 80% of vacant space in the Trade Area. (See Figure 27)

- 2. Consumer spending is projected to grow, driving demand for retail space in key categories.**

The COVID-19 pandemic has clearly impacted the retail sector. Restaurants, apparel stores, electronics, and furniture stores have all seen significant sales declines year over year. However, according to the January release of the Advance Monthly Retail Trade Survey found overall retail

sales were up 5.8% in January 2021 year over year, driven by growth in non-store sales (e-commerce), home improvement, grocery stores, and general merchandise stores. The two categories projected to see the largest growth in consumer expenditure are grocery and restaurants.

- 3. But e-commerce will make up a greater portion of consumer spending. E-commerce is estimated to be about 14% of retail spend but will likely grow to nearly 25% by 2025.**

E-commerce will temper demand for retail real estate space. As more retailers transition to "omnichannel" formats, consumer demands for e-commerce options will continue to grow. There will always be "Amazon-proof" businesses that will ensure that much of retail is still done in brick-and-mortar locations. And retailers will limit e-commerce options because the economics of e-commerce can be challenging—margins for goods sold online are generally lower. But consumers will continue to demand the convenience that these channels offer, and we believe growth will continue.

- 4. And there is a good deal of retail square footage coming into the Grand Avenue Trade Area between 2020 and 2025.**

From the comparative node analysis, we identified about 90,000-square feet of existing vacant retail in the nodes analyzed. From the mixed-use case studies, we identified about 176,000-square feet of mixed-use retail that is planned or proposed in the Grand Avenue Trade Area over the five-year period. That figure includes only half of the proposed retail space at the *Highland Bridges* development because the expected buildout period is longer than five years.

- 5. 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,” was a common refrain heard through the interviews in this analysis. There is still fallout that is expected as stimulus funds run out and businesses close. Landlords are facing an uncertain future, trying to determine who 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. Adding to this sense of uncertainty is the civil unrest caused by the death of George Floyd at the hands of Minneapolis police and potential problems related to the trials.

6. The coronavirus pandemic permanently changed the way consumers shop.

Buy online and pickup in-store (BOPIS) was already a major trend for retail headed into the pandemic, but COVID-19 put gasoline on the fire. To address safety concerns, retailers quickly developed curbside pickup, enhanced drive-through, delivery, and online ordering capabilities. And consumers responded and adopted these new methods of transaction. Now that the recovery has begun, consumers are showing no indication that they will return to their habits prior to the pandemic. Curbside pickup and delivery are here to stay.

7. Weak and struggling retail concepts will continue to disappear from the market.

Retailers who lacked cash, have heavy amounts of debt, or who were already suffering sales declines were forced into bankruptcy in 2020 to levels not seen in more than a decade. Some retailers that were able to stay afloat during 2020 because of rent concessions or stimulus payments will not make it through 2021. Bottom line, there will be fewer stores and retailers in 2022 than there were in 2021.

8. Grocery and convenience retail will continue to be viewed as an essential anchor for retailers.

Community and neighborhood shopping centers with a grocery anchor did well in the pandemic and indoor shopping malls did terribly. Consumers are spending more of their discretionary and essential spending online, but grocery stores and other

convenience retail has been able to maintain sales. Smaller retailers will look to position themselves near grocers and other convenience retailers. And malls will continue to consider adding grocery stores as anchors.

9. E-commerce will continue to grow but will experience growing pains.

With the dramatic acceleration of e-commerce in 2020, the cracks began to show. Employee shortages at distribution centers, a taxed postal service, and technology glitches and crashes meant that consumers were often left feeling disappointed. And, because of the cost structures, online retail is often much less profitable than an instore transaction. Retailers know they must offer e-commerce to be competitive, but the overall trend is driving down the bottom line.

10. Consumers will be financially stressed from the pandemic and that is bad for retailers.

Income and wealth disparities that were happening prior to the pandemic were exacerbated and became more entrenched. Millions of workers lost their jobs, and the economy has only just began to recover. With declines in incomes come declines in consumer spending. Retailers who were able to find a large target market in middle income consumers in the past are now finding that that market is shrinking.

11. Interviews with stakeholders suggest parking on Grand Avenue works well, generally, but changes in the way restaurants and retail conduct business will transform parking needs.

Stakeholders think that the blend of free on-street parking and off-street business-specific parking generally works for businesses. But as more businesses adopt curbside pickup, new drive through models, and delivery, the need for dedicated spaces serving these needs will increase. This trend will put stress on the system. and ignoring these challenges will force retailers to look for new locations that can accommodate these services.

12. Landlords like the diversity and creativity of small businesses and want them to succeed, but costs make it difficult for these

businesses to compete with larger national businesses.

Interviews suggest that landlords want to attract and retain successful entrepreneurs to their buildings, whether they be large or small businesses. New retail concepts bring excitement and traffic to a shopping center, and those concepts are often created by small businesses. But often the costs are an impediment, especially to an area like Grand Avenue that has higher rents and property taxes than other areas of the city. Brokers told us the rent drives the financial return of the building, so landlords are simply looking for tenants who can pay that rent regardless of business size. For new developments, on the other hand, developers often need the credit of a national tenant to secure financing for the deal.

13. Mixed-use projects in the pipeline have been increasing in size and scale compared to recently completed projects.

The average project size for completed projects is 128 units. For projects under construction, planned, or proposed, the average project size is 185 units—an increase of 48% over recently completed projects. The average number of units per acre for completed projects is 107. The average number of units per acre for projects in the pipeline is 215 units per acre—an increase of 68% over recently completed projects

14. Land and construction costs drive the need for height and scale on mixed-use developments.

Developers interviewed through this analysis said the primary construction cost driving the need for height is underground parking. Residential tenants expect underground parking in urban developments, and cities concerned about on-street parking problems also demand underground parking. Developers said construction costs for underground parking range from \$20,000 to \$40,000 per stall and that income from parking fees do not cover those costs. Developers said they need additional units and height to make the financials of the underground parking work. Even then, these financials have been challenging, resulting in many developers pushing for fewer parking stalls. Many

recent projects have had parking ratios below one parking stall per unit.

15. Cities often require first floor commercial space in multifamily developments, and this space can be difficult to lease.

Commercial space in mixed-use buildings is often required by the governing authority. In many cases, the market demand does not justify the space. As a result, these spaces are often afterthoughts in the development process, with little planning for how they will become viable spaces. Developers consider these spaces to be an amenity for the residential and income from the space is not considered in the underwriting process. Many of these spaces sit vacant because developers would rather hold out for a potential tenant that can pay the asking rent rather than lock into a lease below their requirement.

16. Successful commercial developments in mixed-use projects often start with an existing commercial tenant.

Mixed-use projects such as *The Vintage on Selby*, *The Finn*, and *Grand & Syndicate* all started with commitments from an existing tenant. The developer could then tailor the specifications of the project around the needs of that tenant, improving the way that the commercial and residential users coexist. When presented with projects like these, district councils and cities should prioritize these projects because they are more likely to be successful.

Recommendations

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

Because this requirement is not a realistic constraint, it communicates to developers that the neighborhood does not want mixed-use development. It reinforces a belief that the area is “antigrowth.” The long-term impact of this policy will be that development will occur elsewhere in the city, pushing retailers out and exacerbating the existing vacancy problems.

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

Instead of the overlay requirement, we recommend developing realistic design guidelines that reflect the neighborhood's desire to maintain the qualities of Grand Avenue, while at the same time promoting the development of sustainable mixed-use space along the corridor. We recommend bringing together community members and developers to discuss what is desired and what is possible.

One developer interviewed brought up detailed design standards in a first-ring suburb as an example of where the neighborhood made its intention known and developers responded. He said it made discussions at community meetings much more positive as they talked about what they wanted rather than what they did not want.

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

Grocery stores had become a critical anchor for retail as e-commerce has grown in the past 25 years. And during the COVID-19 pandemic, grocery became even more important to the strength of a retail node. We recommend partnering with Lund's and Byerly's on their mixed-use proposal at the Avon Corner building. A new Lund's and Byerly's grocery store would serve as a critical retail anchor to the entire Grand Avenue Retail Node, driving a significant number of shopping trips and creating cross-shopping opportunities for retailers along the corridor.

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

This analysis finds mixed-use projects that have an existing tenant planned for the commercial space are more likely to be successful. These projects create a vibrant streetscape that improve the overall retail in the area. We recommend partnering with the developers who proposed the mixed-use project

at the Dixie's Restaurant site to get this project approved. Those initial plans included creating space for two existing restaurant concepts currently located on the site.

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.

Discussions around retail vibrancy should be ongoing. We recommend creating a standing working group to help promote potential development, identify users for vacant spaces, and work with small businesses to make sure their concerns are heard. This group should focus exclusively on the Grand Avenue district.

6. Establish a citywide "Future of Retail" working group that will promote and inform business needs in the post-COVID-19 environment.

Urban retail faces new challenges that suburban retail does not. Curbside pickup and delivery will tax the city's parking infrastructure in ways that will not happen in a traditional shopping district in a suburban setting. We recommend establishing a citywide working group to help develop proposals and policies to address these challenges. Consumers are demanding new ways to shop and cities and neighborhoods that fail to respond will lose retailers to areas that do.

The new retail environment creates opportunities for urban cities and neighborhoods as well. The new hybrid of retail and distribution means that centrally located real estate becomes more valuable, even locations that did have the access and visibility for traditional retail. Ghost kitchens and mini-distribution centers could find a home in urban neighborhoods, bringing jobs and investment to these areas.

Introduction

The Summit Hill Association District 16 Planning Council is part of the larger Saint Paul planning council system that serves as a liaison between the neighborhood and the various city departments and entities. The Association’s mission is to enhance the quality of life in the neighborhood through a wide range of community projects and programs. One of the Association’s key goals is to respond to ongoing zoning and land use issues to enhance the overall quality of life and address business concerns in the district.

To assist in achieving this goal and to provide background information for its comprehensive planning process, the Association has asked the following questions:

1. What is the outlook for commercial on Grand Avenue and how should the Association adapt to this reality?
2. What are the economic strengths and weaknesses of Grand Ave, and how do those compare to similar commercial strips such as West Seventh Street, Selby Avenue, Ford Parkway, etc.?
3. How will COVID-19 impact consumer spending and Grand Ave businesses?
4. What type/size of businesses does Grand Avenue attract?
5. What can be done to support local businesses?
6. What areas of Grand are candidates for large mixed-use developments?

Purpose

To help answer the questions posed by the association, LOCi Consulting conducted two basic analyses:

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

This study reviews the results of this analysis and is divided into four sections along with findings and conclusions.

- ⇒ Section 1 compares the Grand Avenue Retail Node with four comparable retail nodes in Saint Paul and one in Minneapolis.
- ⇒ Section 2 discusses macro trends in retail that are impacting Grand Avenue and provides an estimated of retail space needs.
- ⇒ Section 3 provides case studies of mixed-use projects in Saint Paul.
- ⇒ Section 4 summarizes the interviews that were conducted for this analysis.

The Summit Hill Association plans to use this analysis to update the Summit Hill/District 16 Neighborhood Plan.

Data Resources and Study Limitations

The data in this analysis are compiled from a variety of sources, including interviews with brokers, property managers, retail experts, and developers, 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 any projections or conclusions that may be used for development planning will be realized as stated.



A Note about the COVID-19 Pandemic

This analysis was completed in February and March of 2021—a period of significant uncertainty as the COVID-19 pandemic continued to impact the population, healthcare system, and major industries in the upper Midwest. This study includes discussions about the trends occurring at the time and expected impacts drawn from interviews and other sources.

Overall, the forecasts in this analysis attempt to account for trends in 2020, but do not significantly

alter the trajectory of growth, based on trends occurring in years prior to 2020. While clearly, some industries have been severely impacted by the pandemic, there is no evidence that these impacts will be structural or would justify significant changes to forecasts.

Because of the balance of these impacts and a lack of evidence of significant structural change, it is assumed that the recovery that started in late 2020 will continue into 2021 and beyond, and that the overall trajectory of population and economic trends will continue.

Retail Node Market Analysis

LOCi Consulting collected comparative data on the Grand Avenue Retail Node and five comparable restaurant and retail nodes in the Minneapolis-Saint Paul Metro Area. Those retail nodes are:

- Selby-Dale Retail Node (sometimes referred to as Cathedral Hill);
- Ford-Cleveland Retail Node (also called Highland Village or Highland Park);
- West Seventh-Grand Retail Node (sometimes called Seven Corners);
- Snelling-Selby Retail Node; and
- 50th-France Retail Node (sometimes just called 50th and France).

These retail nodes were selected because they have similar qualities to the Grand Avenue Retail Node. They are all located within urban neighborhoods. They all contain a mix of restaurant, convenience, and specialty retail. And they all face similar challenges and opportunities of older buildings,

limited parking, and a variety of sometimes conflicting uses.

A map of the retail nodes profiled follows.

This section of the overall analysis provides a summary of the Grand Avenue Retail Node and each of the five profiled comparable nodes, reviews key demographic and economic data for the nodes, and summarizes key market data.

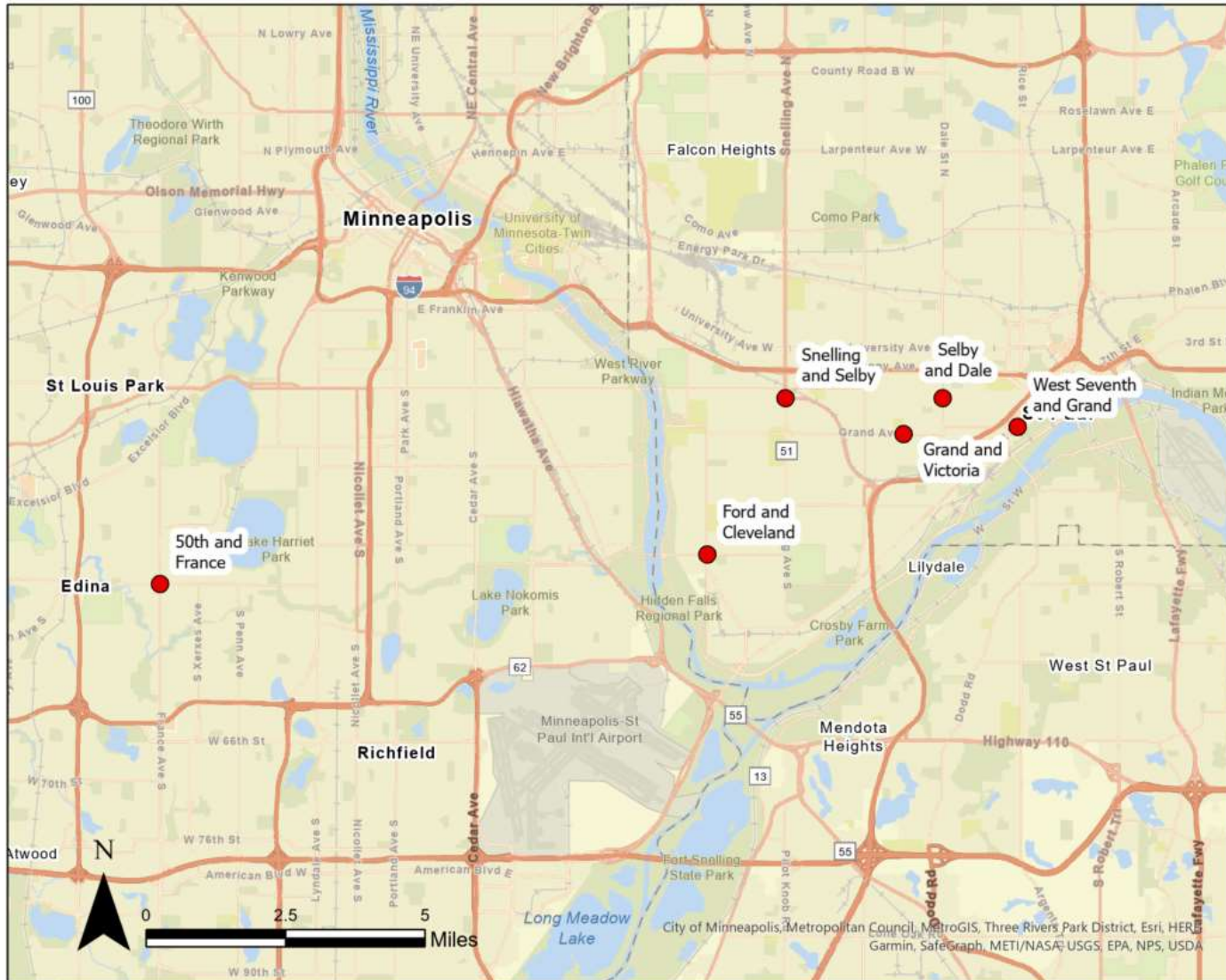
Grand Avenue Retail Node— Overview

For purposes of this analysis, LOCi Consulting defines the Grand Avenue Retail Node as Grand Avenue from Oakland Avenue west to Albert Street. This area includes retail at the intersections of Dale Street, Victoria Street, Lexington Parkway, and Hamline Avenue. The commercial node includes about 575,000-square feet of retail space.



Grand Avenue and Victoria Street, looking west

Profiled Retail Nodes in the Minneapolis-Saint Paul Metro Area



Source: ESRI; LOCi Consulting LLC

Developed along the streetcar line, Grand Avenue is a tree-lined commercial district that runs east to west with a variety of local and national shops. It is also known across the Metro Area for its restaurants and dining—when you bring up Grand Avenue, most Twin Cities residents know of Café Latte and the Lexington.

The corridor runs adjacent to Summit Avenue, which has some of the most historic architecture in the state. The area serves the adjacent neighborhoods of Crocus Hill, Cathedral Hill, Lexington-Hamline, Summit University, West Seventh Street, Macalester-Groveland, and Highland Park.

The area is also known as the host of Grand Old Day—one of the state biggest summer festivals with street vendors, beer gardens, and performance stages. The June festival covers 30 blocks of Grand Avenue and attracts hundreds of thousands of attendees. The festival was cancelled for 2020 due to the coronavirus pandemic and 2021 is uncertain.

Parking

Parking on Grand Avenue is a mix of free on-street parking along with off-street surface parking lots for some commercial buildings. Parking is restricted to residents on some side streets in neighborhoods

around the corridor. Two levels of pay parking are available for commercial buildings at Grand Avenue and Victoria Street in the Grand Place building above the Pottery Barn.

Mix of Retailers

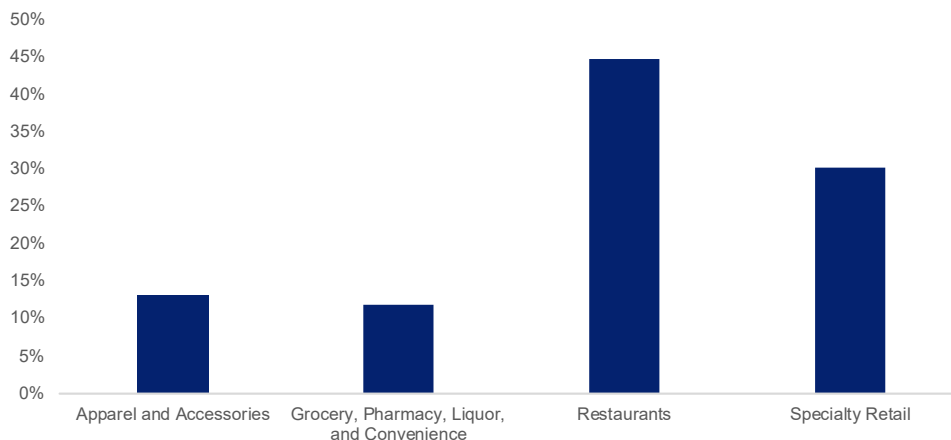
Figure 1 shows the mix of retail types on Grand Avenue. This data comes from Database USA and is not comprehensive of all businesses along Grand Avenue. LOCi Consulting has reviewed and revised where necessary and believes that it provides a good snapshot of what restaurants and retailers are located in the area.

Maps showing restaurants and retail along Grand Avenue follow.

For purposes of this analysis, we group retail into the following categories:

- ⇒ Apparel and Accessories: Men’s, women’s, and children’s clothing; jewelry; footwear, etc.
- ⇒ Grocery, Pharmacy, Liquor, and Convenience: Food at home, liquor stores, drug stores, gas and convenience stores; general merchandise stores; and hardware (grouped together because they provide for essential needs and tend to be traffic drivers).

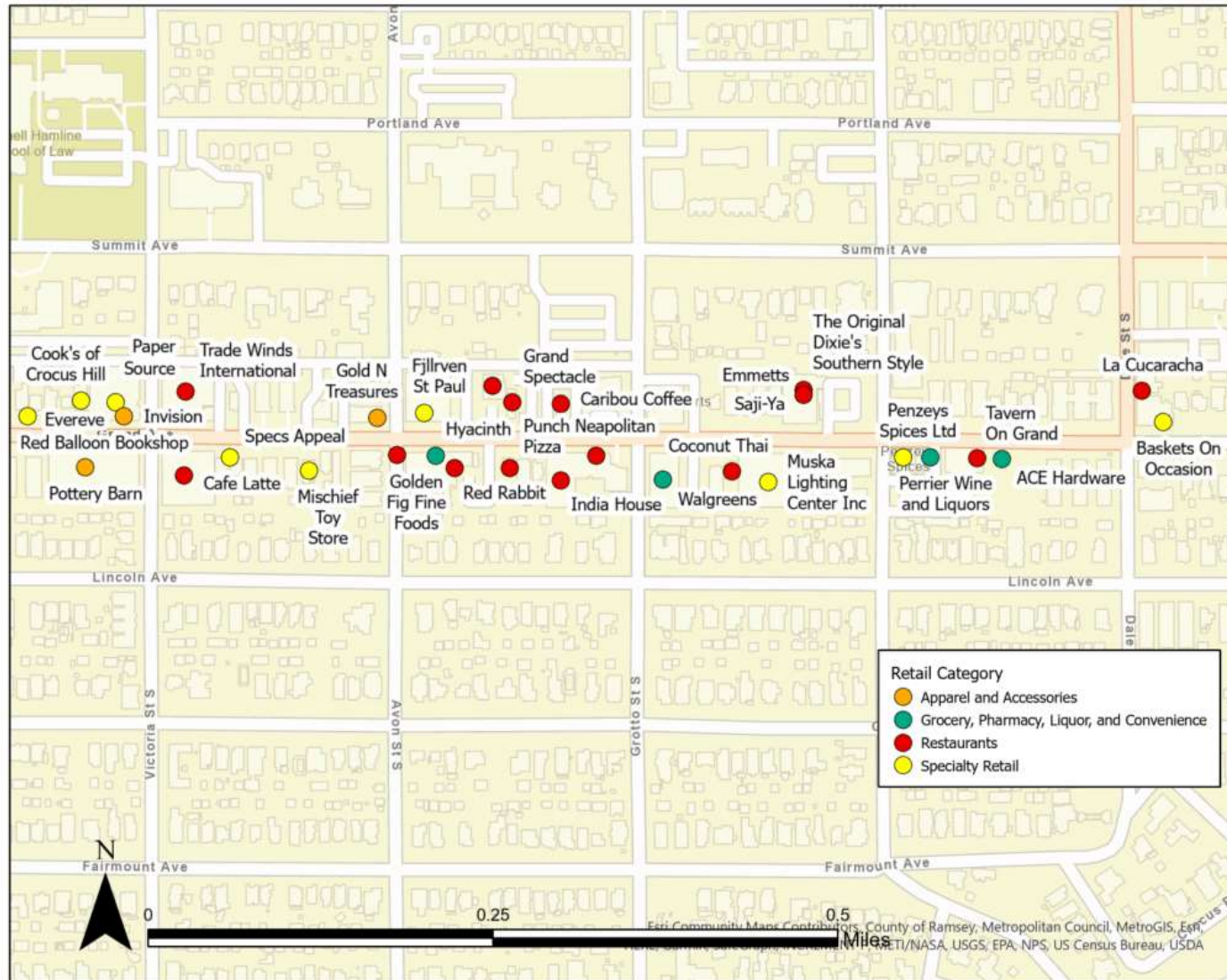
1 Mix of Retail at Grand Avenue Retail Node



*Percentage of establishments

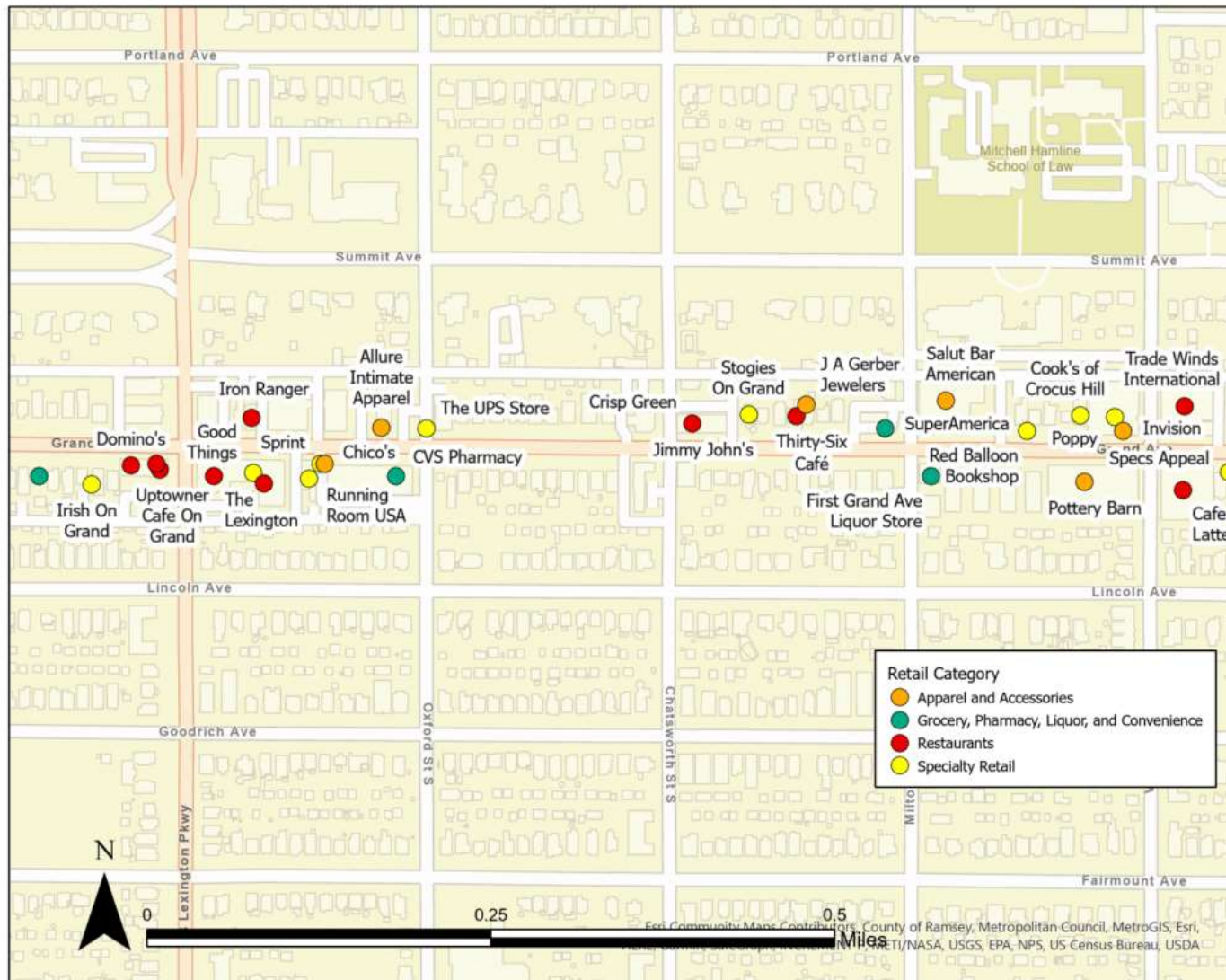
Source: Database USA; ESRI; Loci Consulting LLC

Restaurant and Retail on Grand Avenue, Dale Street to Victoria Street



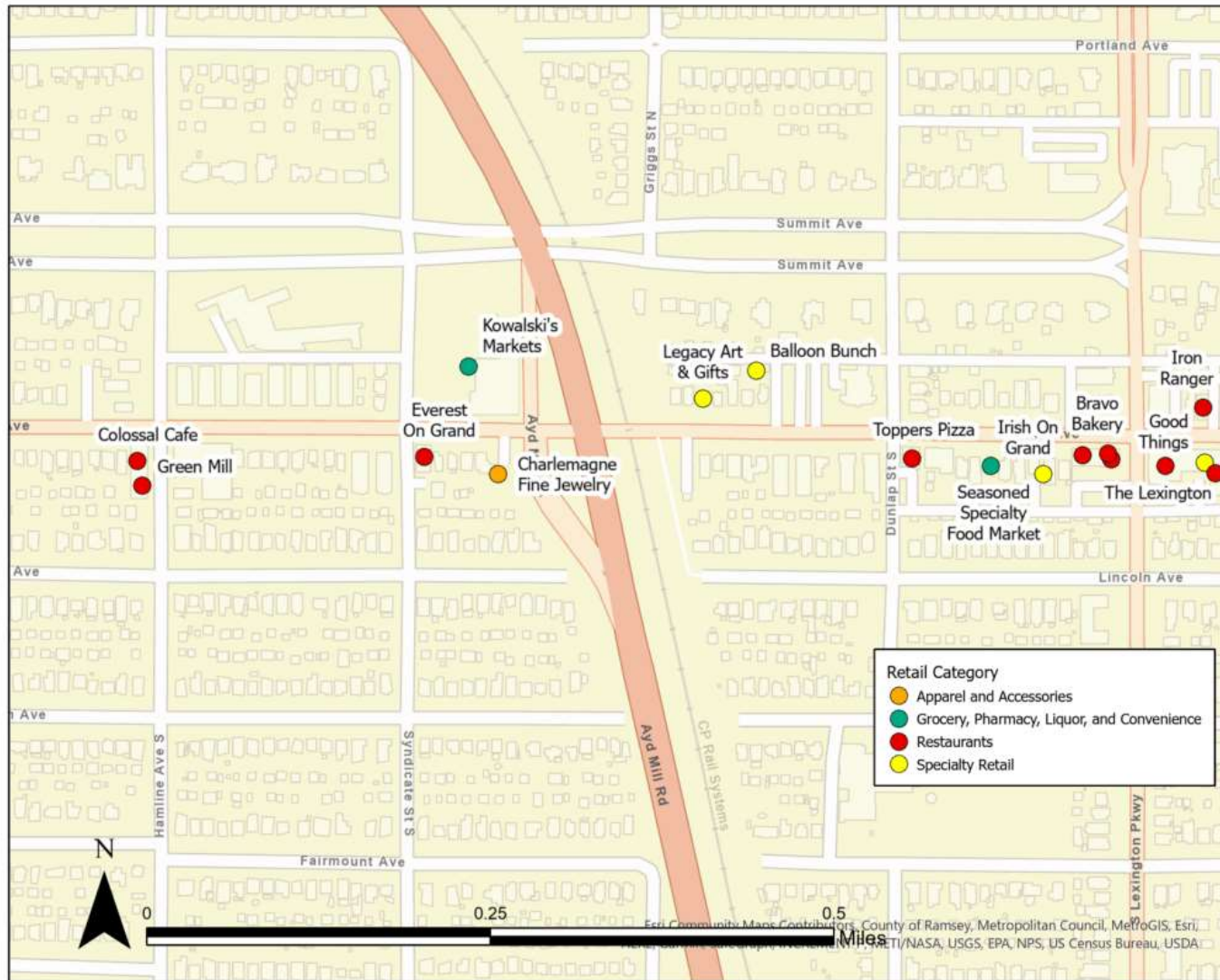
Source: Database USA; ESRI; LOCi Consulting LLC

Restaurant and Retail on Grand Avenue, Victoria Street to Lexington Parkway



Source: Database USA; ESRI; LOCi Consulting LLC

Restaurant and Retail on Grand Avenue, Lexington Parkway to Hamline Avenue



Source: Database USA; ESRI; LOCi Consulting LLC

- ⇒ Restaurants: Food away from home; coffee shops; bars and restaurants, etc.
- ⇒ Specialty Retail: Optical; gift shops; houseware boutiques; wireless stores; and auto.

Grand Avenue is anchored on the west side of the analysis area by a 22,000-square-foot Kowalski's Market, an upscale-regional grocer. Other major traffic drivers are CVS at Oxford Street and Walgreens at Grotto Street, both east Kowalski's.

In general, restaurants and retailers do not group together by category. They are generally dispersed along the corridor, although there are some naturally occurring clusters, like the group of restaurants between Milton Street and Grotto Street.

Strengths of the Node

- Grand Avenue has a well-known brand throughout the Twin Cities Metro Area. Metro residents know of the street and often associate the city of Saint Paul with Grand Avenue.
- The area around Grand Avenue is unique with historic homes and commercial buildings unlike other areas. With the mansions on Summit Avenue, the homes of Crocus Hill, and the eclectic mix of commercial buildings, visitors to the area get an experience that is rare in Twin Cities Metro Area.
- Grand Avenue has a legacy as an upscale retail area. Shoppers and business owners associate the area with a sense of upscale and charming.
- Compared to other retail nodes in the Metro Area, on-street parking is relatively convenient. Some shoppers and businesses are attracted to the fact that parking along Grand Avenue is free and convenient, most of the time.
- Grand Avenue is close to demand drivers that are attractive to retailers. The retail node is close to downtown Saint Paul, the Xcel Energy Center, and institutions of higher education in the area.

Weaknesses of the Node

- The Grand Avenue Retail Node is not well connected to the Metro Area's transportation infrastructure. Visitors to the area must know to exit interstates at Lexington Parkway, Dale Street, Grand Avenue (but only from the south) to get to Grand Avenue. For some businesses seeking to draw from a larger base of customer in the Metro Area, this can be a challenge.
- Grand Avenue is a long retail node. The distance from Dale Street to Hamline Avenue is 1.5 miles. This spacing means that it is not as walkable as the other comparable retail nodes.
- Parking can be a challenge. While on-street parking is convenient at times of low traffic, it can become difficult to find a parking space at busy times. Off-street parking is available at many spots but can also be a challenge.
- There are many commercial structures that are becoming obsolete. These buildings bring charm to the area, but from a retail operations perspective they can be challenging to work with in the modern retail business model.

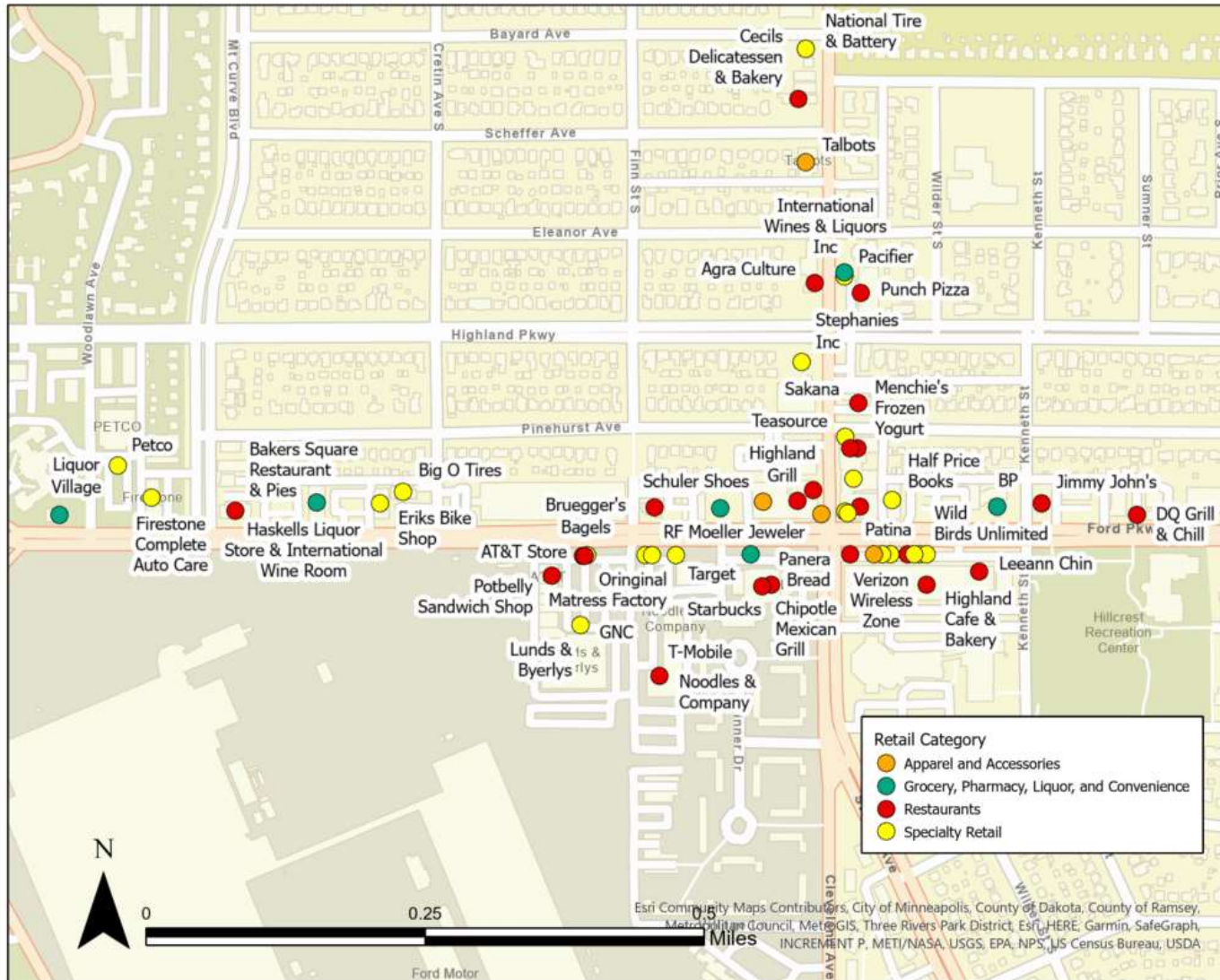
Ford-Cleveland Retail Node— Overview

For purposes of this analysis, LOCi Consulting defines the Ford-Cleveland Retail Node as the Ford Parkway between Howell Street and the Mississippi River, and Cleveland Avenue between Bayard Avenue and Bohland Avenue. The area is also called Highland Village, or just Highland Park. The area is anchored by a 23,000-square-foot Lund's and Byerly's grocery store and a 15,000-square-foot small-format Target store. Both are significant traffic drivers for retail in the area.

This area includes the large Ford site redevelopment project that is now *called Highland Bridge*. The Ford-Cleveland Retail Node includes about 400,000-square feet of retail space.

A map of key retailers follows.

Restaurant and Retail at Ford-Cleveland Retail Node



Source: Database USA; ESRI; LOci Consulting LLC

Parking

With more traditional suburban-style shopping centers, the Ford-Cleveland Retail Node has more off-site, surface parking than Grand Avenue. Parking is not as regulated in the neighborhoods, but it is less necessary to the retailers in the area.

Parking for retailers not in shopping centers is generally accommodated by on-street parking.

Strengths of the Node

- The Ford-Cleveland Retail Node is contained around a key intersection, with retail both north-south and east-west of the center. This fact makes the area more walkable.
- The node is situated in a pocket of population not well served by other retail nodes. Natural and psychological barriers such as the river and the airport create what retailers call a “captive trade area.”
- The parking generally works well in the retail node. This characteristic may change as the *Highland Bridge* development brings growth to the area.

- The *Highland Bridge* development is creating excitement in the area and may become a key concept for branding for all retail in the node.
- The node is close to local colleges.

Weaknesses of the Node

- Traffic at the node’s primary intersection, Ford Parkway and Cleveland Avenue, can be congested at times.
- The area is not well connected to the Metro Area’s transportation network. It is not easy to get to the retail node from the interstate.
- The retail node is located too close to the Mall of America. This fact limits the area to retail that is neighborhood focused and not regionally focused. Where Grand Avenue might be able to capture a retailer looking to put in only two or three units in the market, the Ford-Cleveland Node might have some challenges.
- The neighborhood has a brand, but it is not well-known outside of the City of Saint Paul.



Ford-Cleveland intersection, looking south

- Although its buildings are generally newer than Grand Avenue, it has many retail structures that are on the verge of becoming obsolete.

Snelling-Selby Retail Node— Overview

For purposes of this analysis, LOCi Consulting defines the Snelling-Selby Retail Node generally as Snelling Avenue between Interstate 94 and Summit Avenue and Selby Avenue between Ayd Mill Road and Pierce Street. The node is anchored by a 40,000-square-foot Whole Foods. The Snelling-Selby Retail Node includes about 220,000-square feet of retail space.

A map of key restaurants and retailers follows.

Parking

The Snelling-Selby Retail Node is characterized by a blend of surface off-street parking and on-street parking. Whole Foods has 200 spaces of dedicated covered parking.

Strengths of the Node

- The area is well connected to the Metro Area’s interstate system and the local neighborhoods.

Snelling Avenue is the major thoroughfare through neighborhoods both north and south of Interstate 94.

- The retail node is close to the colleges in the area.
- Allianz Field north of the site drives entertainment traffic to the area and is generating residential and commercial growth that will complement the node.
- Parking generally works well.
- Unlike traditional grocers, Whole Foods acts as a more regional draw to the area.

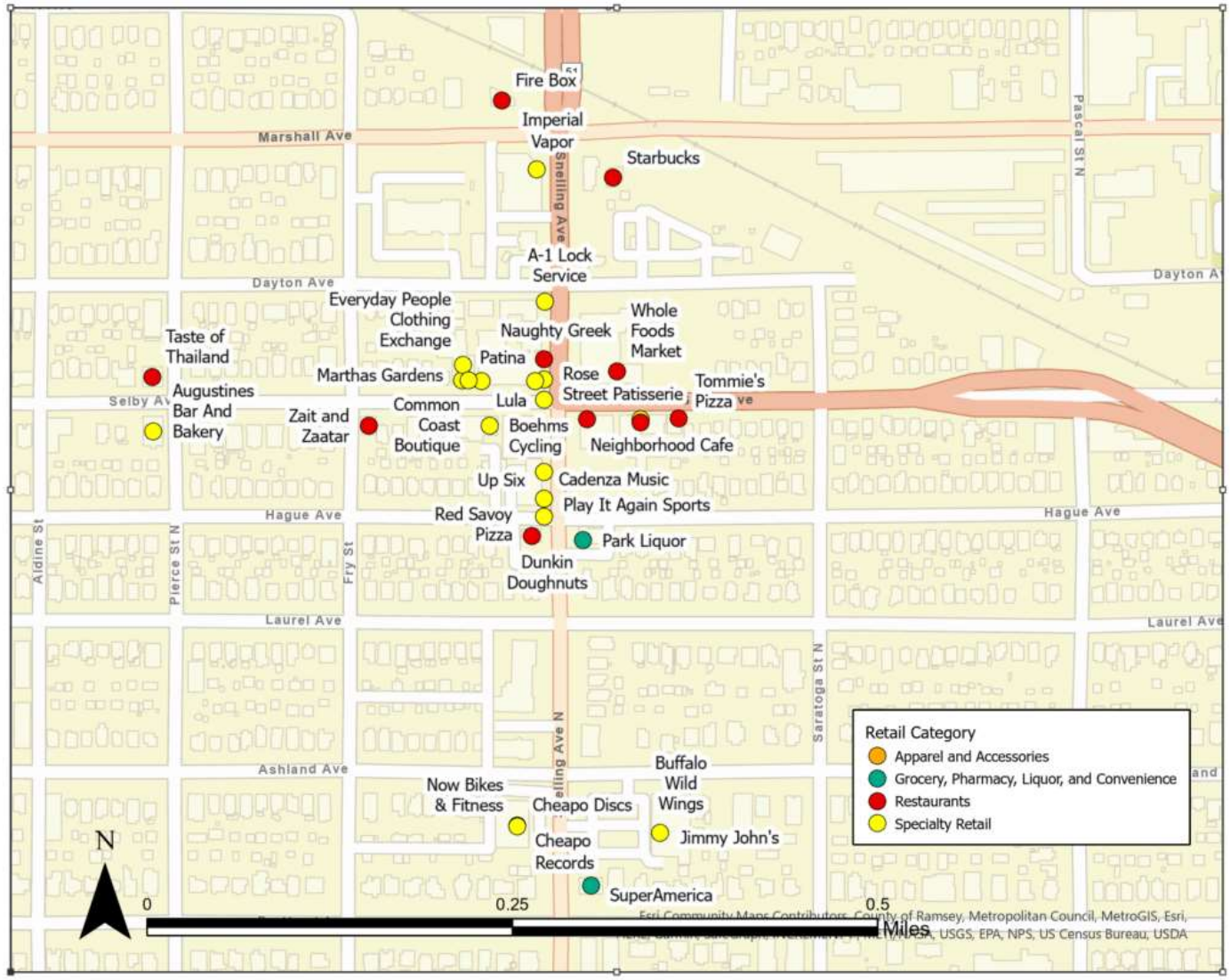
Weaknesses of the Node

- The Ayd Mill Road interchange east of the site creates traffic problems at the intersection.
- It is a small node. There are limited options for retail and restaurant space



Snelling-Selby intersection, looking south

Restaurant and Retail at Snelling-Selby Retail Node



West Seventh-Grand Retail Node— Overview

For purposes of this analysis, LOCi Consulting defines the West Seventh-Grand Retail Node as the area along West Seventh Street between Kellogg Boulevard and St. Clair Avenue. On the northeast end of the retail node, the Xcel Energy Center drives significant traffic, creating a restaurant and entertainment district. The southwestern end is characterized by more convenience and neighborhood retail uses.

A map of key restaurants and retailers follows.

The City of Saint Paul and Ramsey County are currently engaged in planning for a modern streetcar line that would connect downtown Saint Paul and the Minneapolis-Saint Paul Airport along West Seventh Street. This proposed infrastructure would significantly alter the existing nature of this corridor.

Parking

Because of the proximity of the Xcel Energy Center, there are many off-street parking lots that serve the northeastern end of the corridor. The

southwestern portion of the corridor is a blend of off-street surface lots and on-street parking, like Grand Avenue.

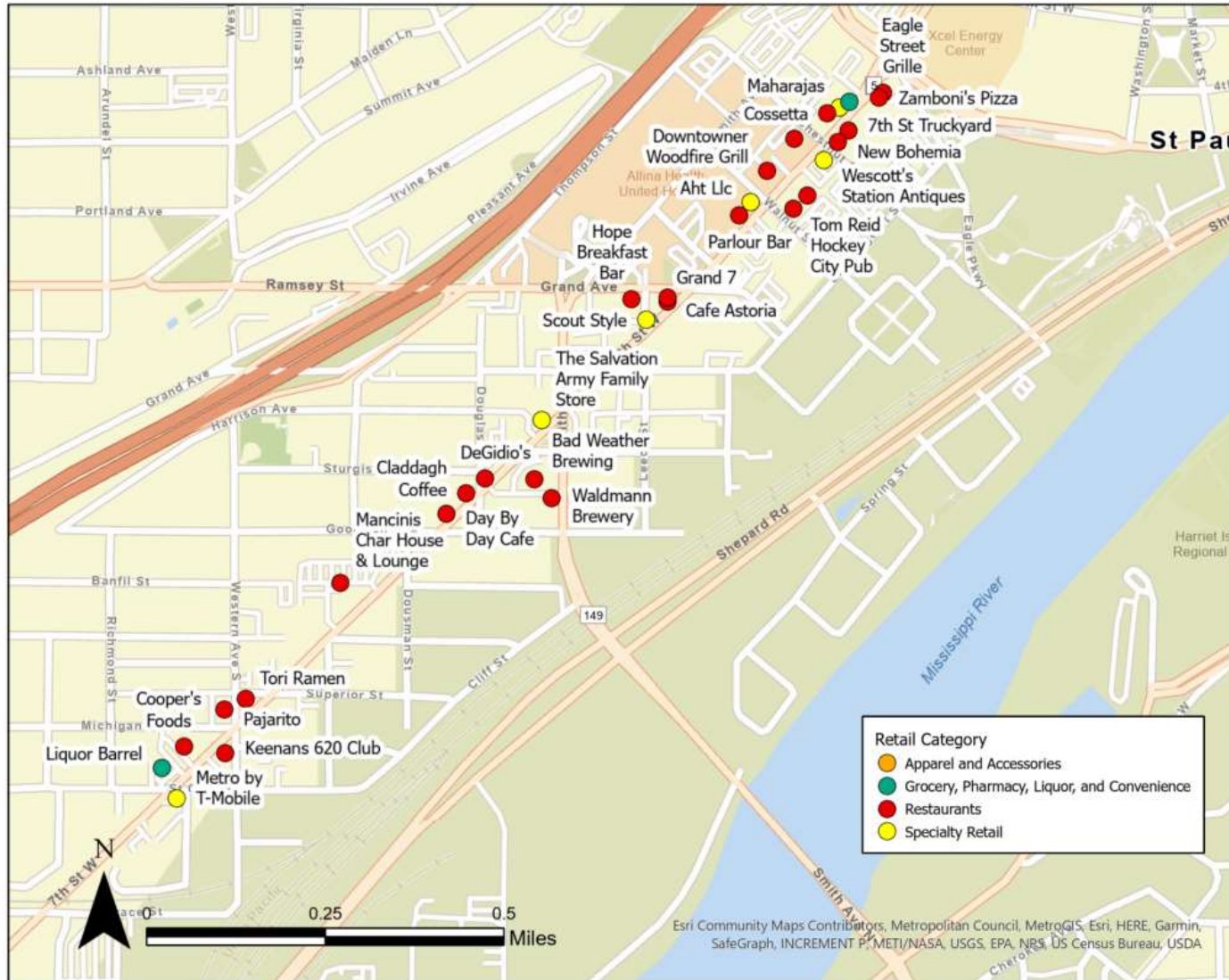
Strengths of the Node

- The Xcel Energy Center drives restaurant and entertainment traffic to the node.
- The area is proximate to downtown Saint Paul and its employers and residential population.
- The hospital district to the northwest generates daytime traffic to the node.
- The West Seventh-Grand Retail Node is well connected to the Metro Area’s interstate system.
- The area is characterized by historic homes and commercial buildings with character.
- Parking infrastructure has been developed to manage the blend of event and non-event traffic.
- The area is home to known restaurants—for example Cossetta—that generate cross-shopping traffic to the area.



West Seventh-Grand intersection, looking north

Restaurant and Retail at West Seventh-Grand Retail Node



Source: Database USA; ESRI; LOci Consulting LLC

Weaknesses of the Node

- The area does not have a well-known brand beyond the Xcel Energy Center.
- While the area is well connected to the interstate infrastructure, it is not well connected to the neighborhoods to the west and across the river. Topography, the river, and the interstates create barriers for this area.
- The sports and entertainment traffic for the area limits the types of retail that can be supported on the corridor’s northwestern end.
- The development of the proposed streetcar line might create concern about business disruptions.

Selby-Dale Retail Node—Overview

For purposes of this analysis, LOCi Consulting defines the Selby-Dale Retail Node as Selby Avenue from just east of Western to just west of Dale Street. The area is anchored on the west end by the 22,000-square-foot Mississippi Market, a natural foods cooperative. On the east end, the retail node is anchored by the Blair Arcade Building and the Dacotah Building, two architecturally significant commercial buildings. A map of key retailers follows.

Parking

Like Grand Avenue, there is a mix of free on-street parking and off-street parking lots to serve customers to the area. Parking in the adjacent neighborhoods is less restrictive than parking in the Grand Avenue Corridor.

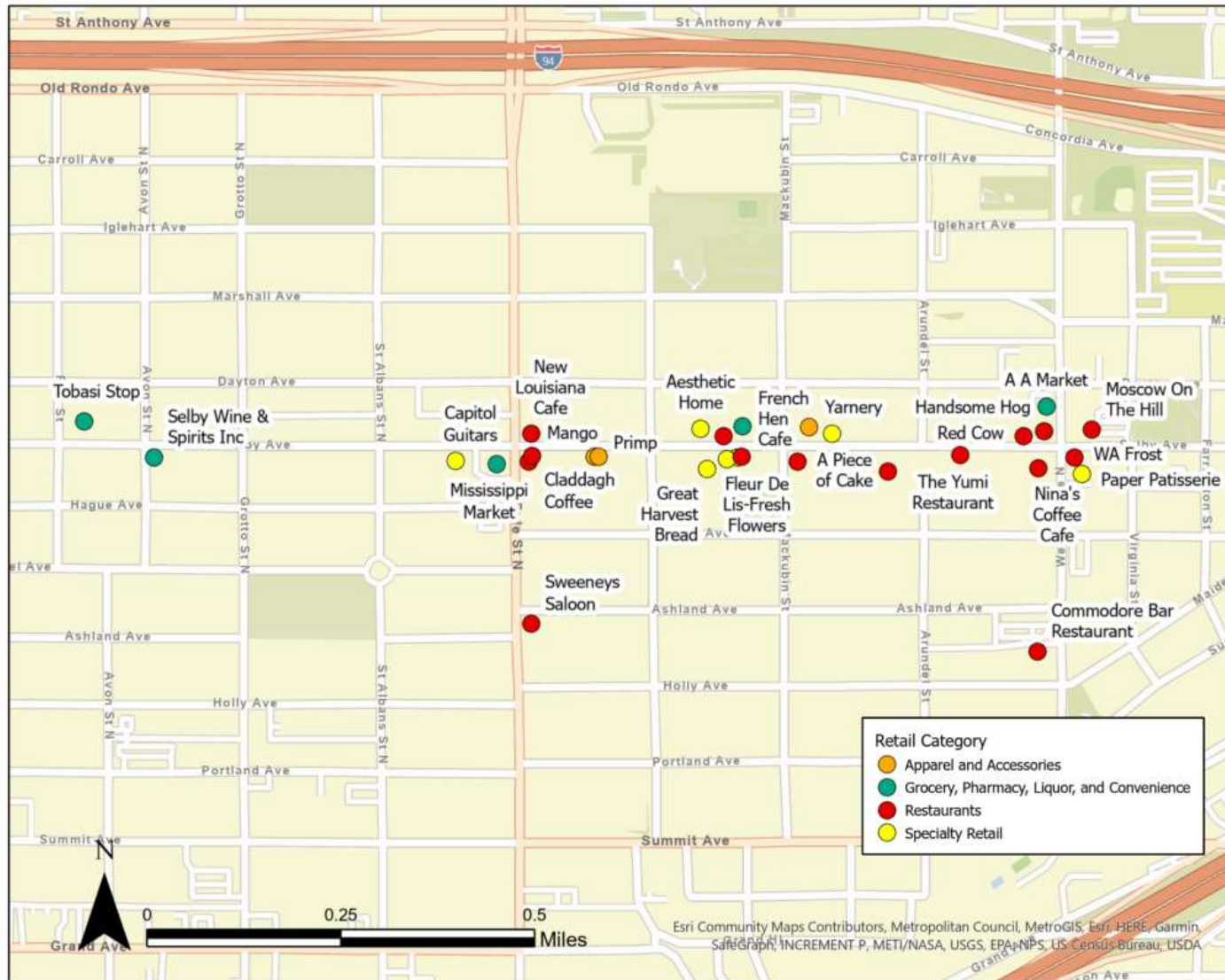
Strengths of the Node

- Like the area around Grand Avenue, Cathedral Hill is unique with historic homes and commercial buildings unlike other areas.
- The Selby-Dale Retail Node is known for its restaurants. Although, outside of Saint Paul, most people familiar with the restaurants would not be familiar with the area as a whole. On-street parking is relatively convenient.
- The Selby-Dale Retail Node is close to demand drivers attractive to restaurants and retailers—including downtown Saint Paul, the Xcel Energy Center, and institutions of higher education.
- The Selby-Dale Retail Node is close to the Grand Avenue Retail Node. The area gets some benefit from being close to a more notable area to its south.



Selby-Dale intersection, looking west

Restaurant and Retail at Selby-Dale Retail Node



Source: Database USA; ESRI; LOCi Consulting LLC



50th-France intersection, looking west

Weaknesses of the Node

- The West Seventh-Grand Retail Node does not have a brand that is familiar across the Twin Cities Metro Area.
- Like the Grand Avenue Retail Node, the area is not well connected to the Metro Area’s transportation infrastructure. Customers must know how to get to the node.
- The node does not have a signature intersection or center, making walkability more of a challenge.
- As with Grand Avenue, there are many commercial structures that are becoming obsolete.

50th-France Retail Node—Overview

LOCi Consulting profiled the 50th and France commercial district on the border of Minneapolis and Edina because it is often compared to Grand Avenue.

For some national upscale retailers, they will consider 50th and France and Grand Avenue as

possible comparable, “high street” locations. High street retail refers to luxury brands that look to locate in exclusive shopping districts. Often time a metropolitan area will have only one high street location. North Loop and Uptown in Minneapolis are also considered as locations for this type of retail. The Mall of America is also considered as a location for this type of retail.

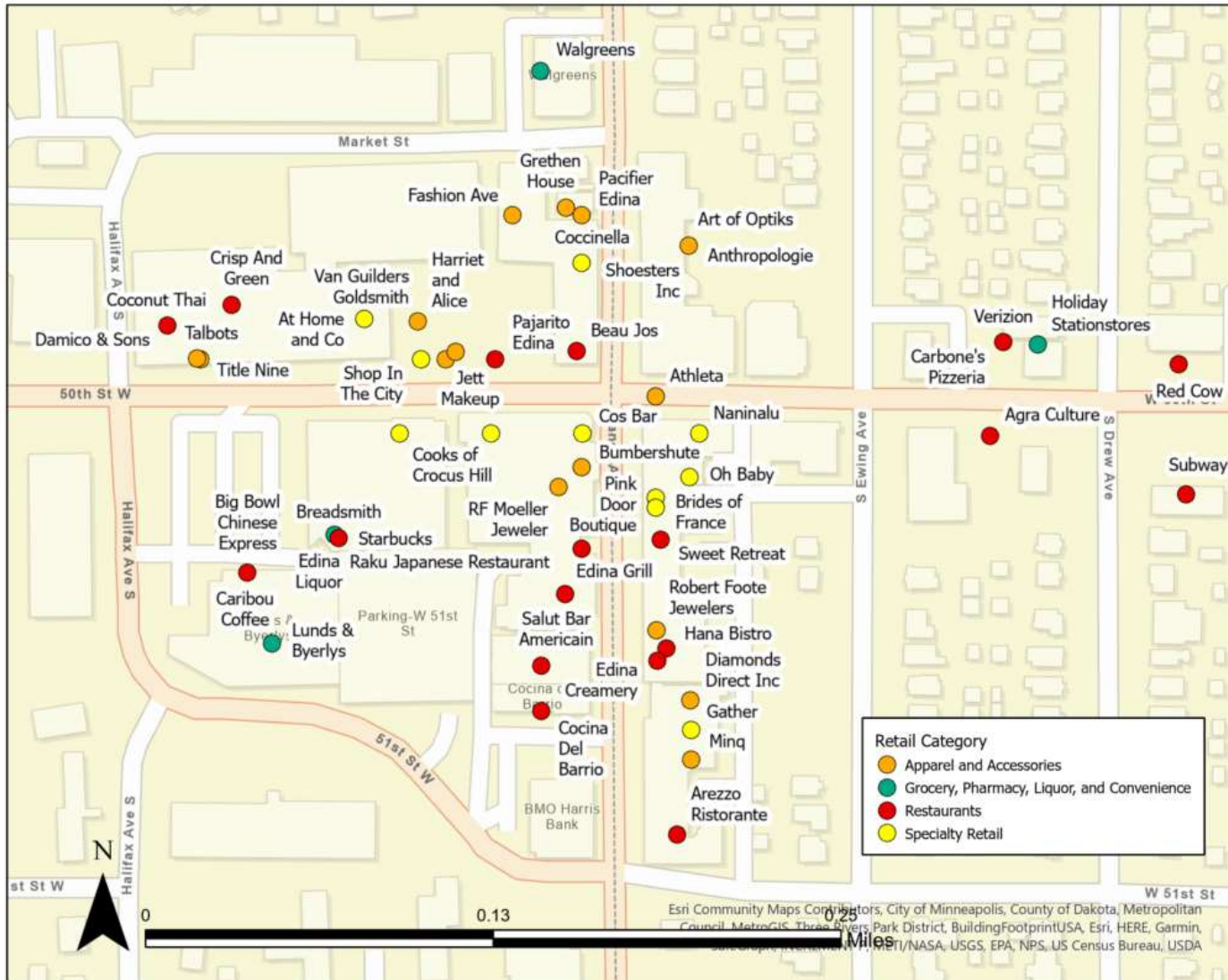
For purposes of this analysis, LOCi Consulting defines the 50th-France Retail Node as France Avenue between 49th Street and 52nd Street and 50th Street between Beard Avenue and Maple Road. The retail node is anchored by a 30,000-square-foot Lund’s and Byerly’s grocery store.

A map of the key restaurants and retailers follows.

Parking

The 50th-France Retail Node has on-street pay parking available throughout the district. The area also offers 1,000 free parking stalls in three multilevel parking structures that surround the district. Lund’s and Byerly’s provides free surface level parking to its guests.

Restaurant and Retail at 50th-France Retail Node



Source: Database USA; ESRI; LOci Consulting LLC

Strengths of the Node

- The 50th-France Retail Node is centered around a key intersection and is very walkable.
- Parking is convenient and easy for customers.
- The node is easily accessible from Highway 100 to the west.
- The area has a good brand and is well known throughout the Metro Area.
- The node is proximate to demand drivers south of the site along France Avenue, including the Southdale Hospital district and the commercial node around Southdale mall.
- The Edina Theater drive entertainment traffic to the area. (But there are rumors that this theater will be closing because of COVID-19 challenges.)

Weaknesses of the Node

- Although generally considered more exclusive, the retail node competes with the regional commercial district that surrounds Southdale Mall south of the node.

- While the parking may be convenient to most guests, some customers do not like parking ramps.
- Traffic at the key intersection can be congested.

Mix of Restaurant and Retail

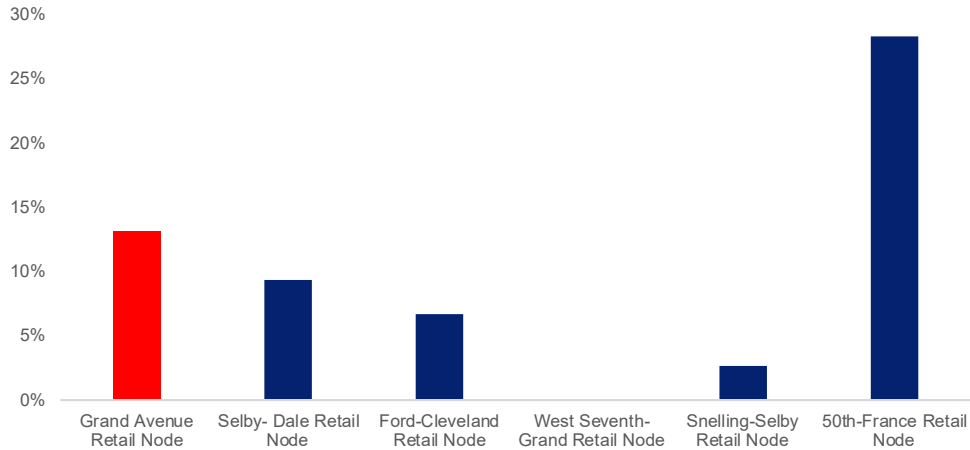
Figures 2 through 5 show the mix of retail for the Grand Avenue Retail Node and the comparison nodes. The data is for identified retailers from Database USA and not 100% comprehensive. We believe it represents almost all of the retailers within each retail node. The data is shown by establishment and is not adjusted for employee count or square footage.

- The data shows that the Grand Avenue Retail Node has diversity of retail mix compared with the other retail nodes.
- The 50th-France Retail Node skews higher in apparel and accessories. The West Seventh-Grand Retail Node skews higher in restaurants.



Lund's and Byerly's surface parking lot at 50th-France Retail Node

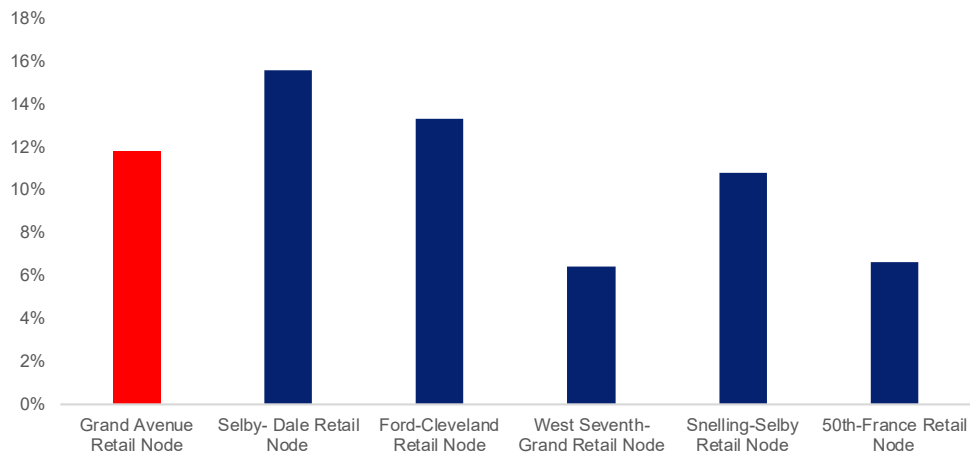
2 Apparel and Accessories Mix at Profiled Retail Nodes



*Percentage of establishments

Source: Database USA; ESRI; LOCi Consulting LLC

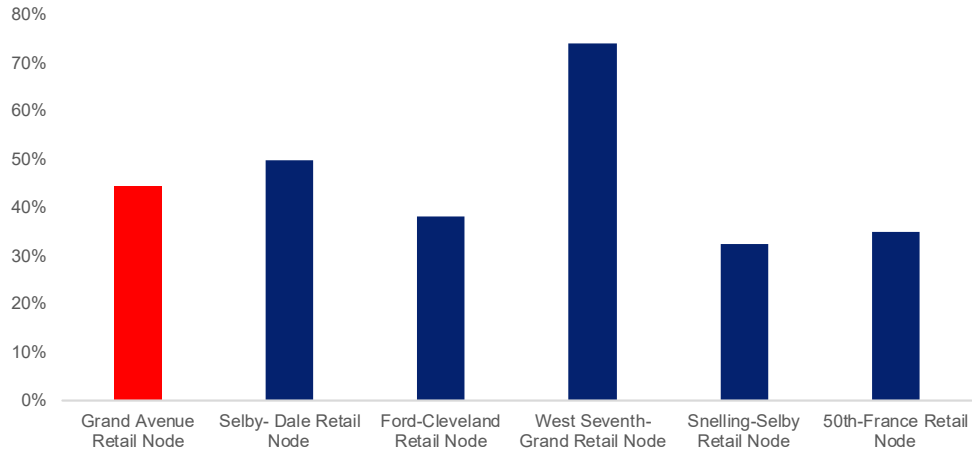
3 Grocery, Pharmacy, Liquor, and Convenience Mix at Profiled Retail Nodes



*Percentage of establishments

Source: Database USA; ESRI; LOCi Consulting LLC

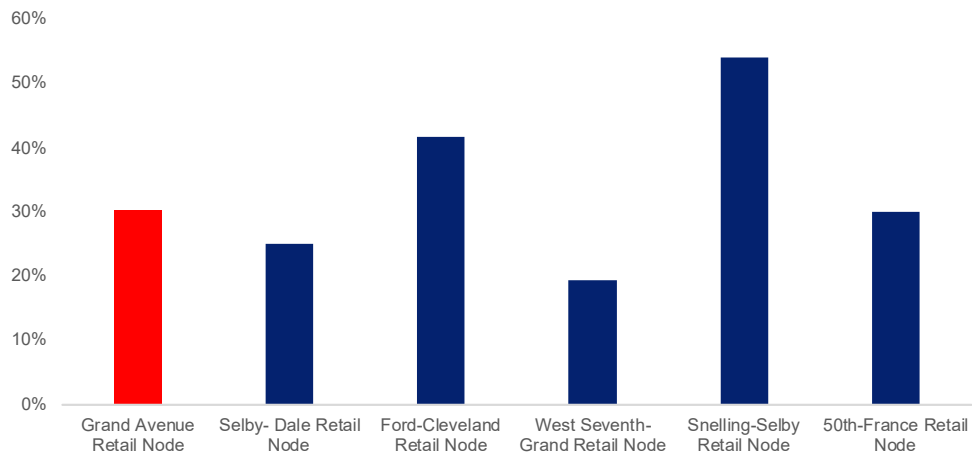
4 Restaurant Mix at Profiled Retail Nodes



*Percentage of establishments

Source: Database USA; ESRI; LOCi Consulting LLC

5 Specialty Retail Mix at Profiled Retail Nodes



*Percentage of establishments

Source: Database USA; ESRI; LOCi Consulting LLC

Primary Trade Area Definitions

LOCi Consulting defined primary trade areas for the profiled retail nodes using drive-time analysis. The trade areas contain the population within a given driving distance as measured by time. Drive-time distances are often preferred by retail site selectors because they consider barriers such as roads and rivers.

We selected 7-minute drive-time rings for the trade areas in this analysis. For a grocery analysis, a tighter 5-minute drive-time might be preferable. For a more regional retailer, a 15-minute drive-time analysis might be preferable. We believe that a 7-minute drive-time provided for the best information of the character of the trade area without too much overlap between the areas.

Maps of the 7-Minute Drive-Time Trade Areas for the profiled retail nodes are shown on the following pages.

Demographic and Economic Analysis

Using the 7-minute drive-time trade areas, LOCi Consulting gathered demographic and economic data to understand key differences between the areas and to understand how restaurants, retailers, and other businesses compare these nodes.

Population and Households

Figures 6 through 9 show population and household growth in the profiled trade areas with comparisons to the cities of Minneapolis and Saint Paul and the Metro Area as whole.

- The population base of the Grand Avenue Trade Area is approximately 216,000 people and 87,000 households.
- The Ford-Cleveland and 50th-France Trade Areas have slightly smaller population and household

bases, reflecting the fact that the neighborhoods surrounding these nodes have less multifamily projects than the others.

- The Grand Avenue Trade Area is projected to add to add approximately 8,400 people and about 3,700 households between 2020 and 2025. In other words, to accommodate projected new growth, the PMA will need 3,700 new housing units over the next five years.
- Growth in the Grand Avenue Trade Area is comparable to the other trade areas.

Median Household Income

Figures 10 and 11 show the median household income in the profiled trade areas, with comparisons to the cities of Minneapolis and Saint Paul and the Metro Area as a whole.

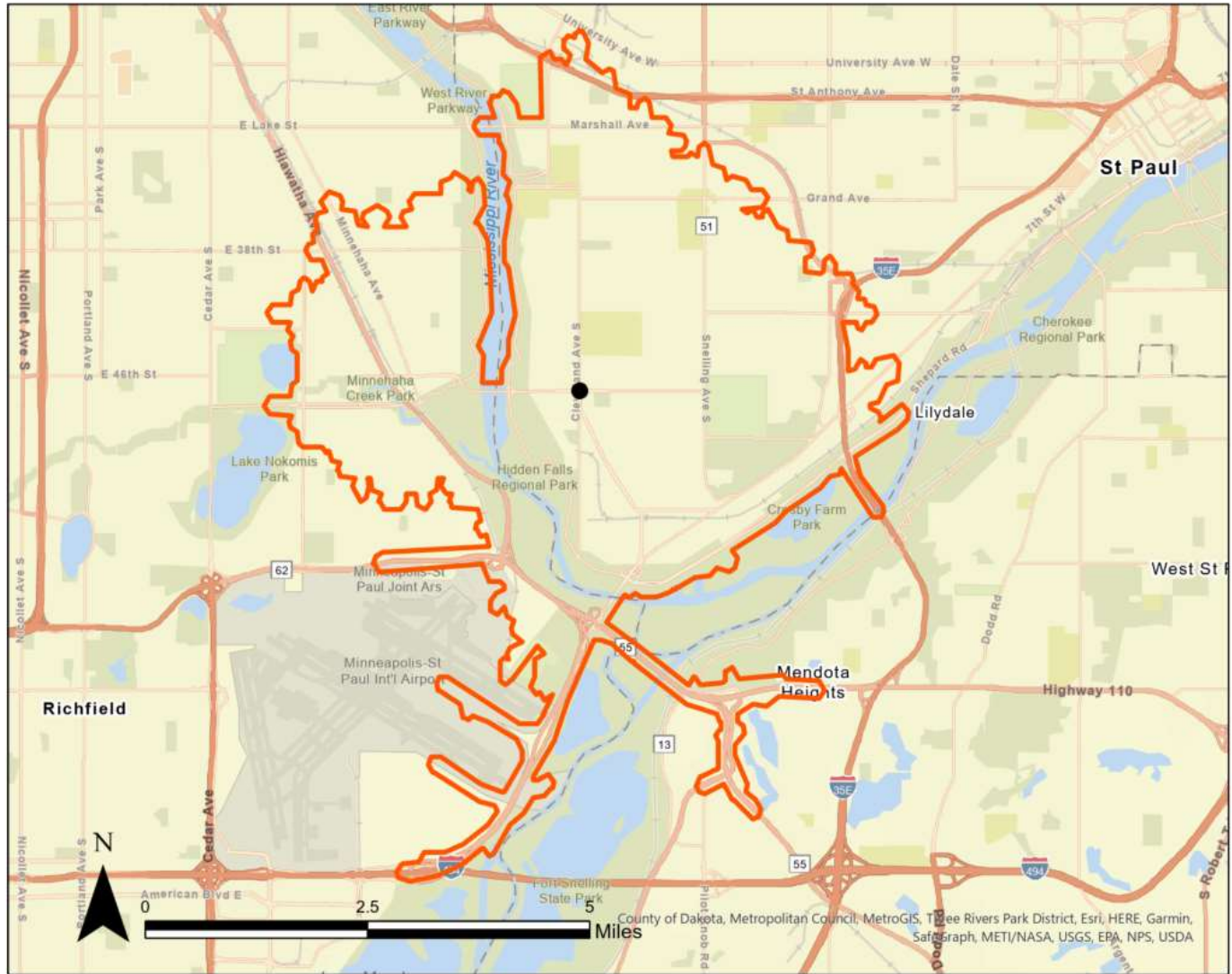
- The median household income for the Grand Avenue Trade Area is \$58,797.
- The 7-minute drive-time area covers the Summit Hill and portions of the Macalester-Groveland and Highland Park neighborhoods. It also includes areas with more mixed incomes, such as areas north of Interstate 94 and east of Interstate 35E.
- The 5-minute drive-time radius median income is \$63,650 (not shown in the table).
- The 50th-France Trade Area has the highest median household incomes.
- The Selby-Dale Trade Area has the lowest median household incomes.
- Incomes in the Grand Avenue Trade Area are projected to grow 1.6% per year between 2020 and 2025.

Grand Avenue 7-Minute Drive-Time Trade Area



Source: ESRI; LOci Consulting LLC

Ford-Cleveland 7-Minute Drive-Time Trade Area



Source: ESRI; LOci Consulting LLC

Snelling-Selby 7-Minute Drive-Time Trade Area



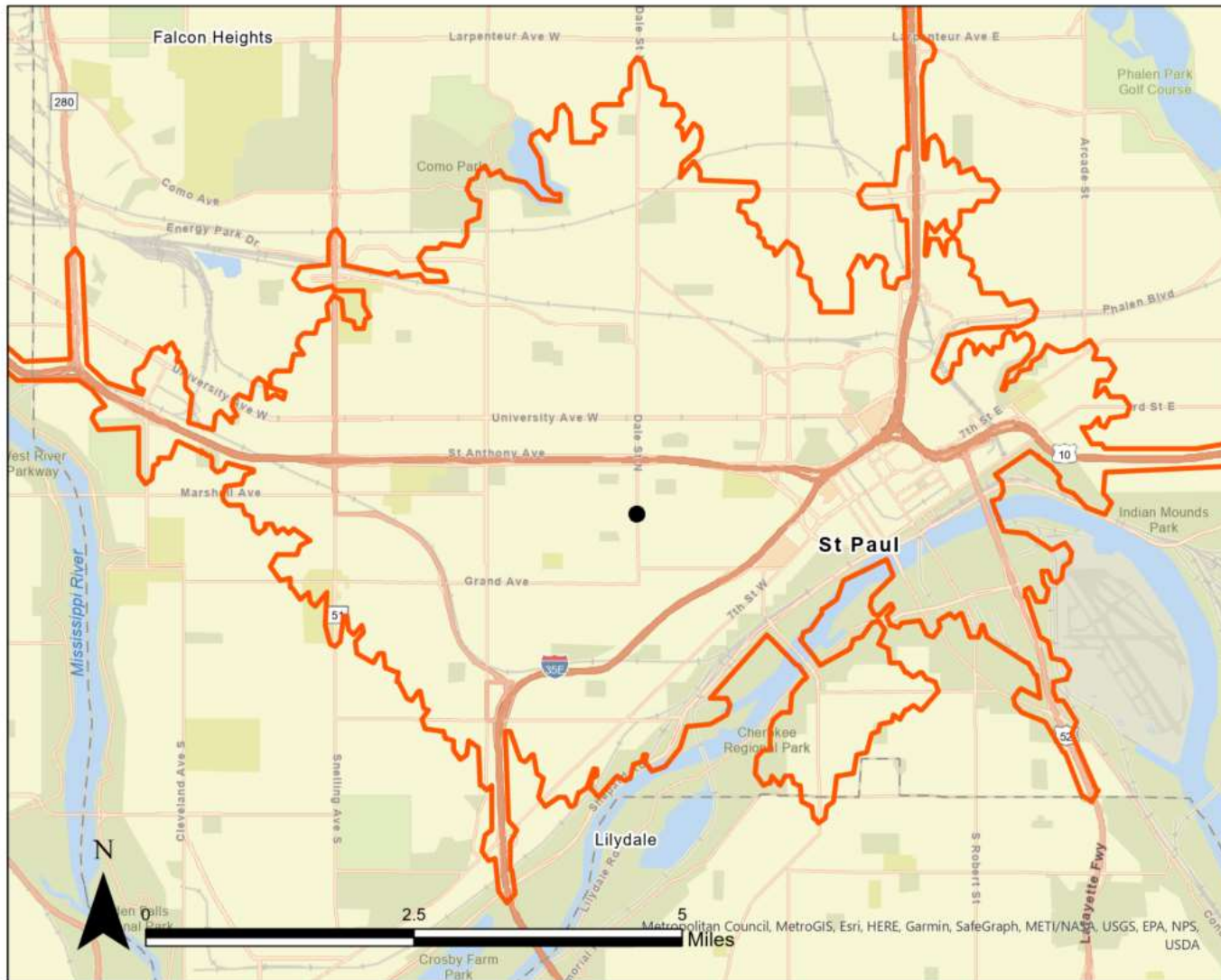
Source: ESRI; LOCi Consulting LLC

West Seventh-Grand 7-Minute Drive-Time Trade Area



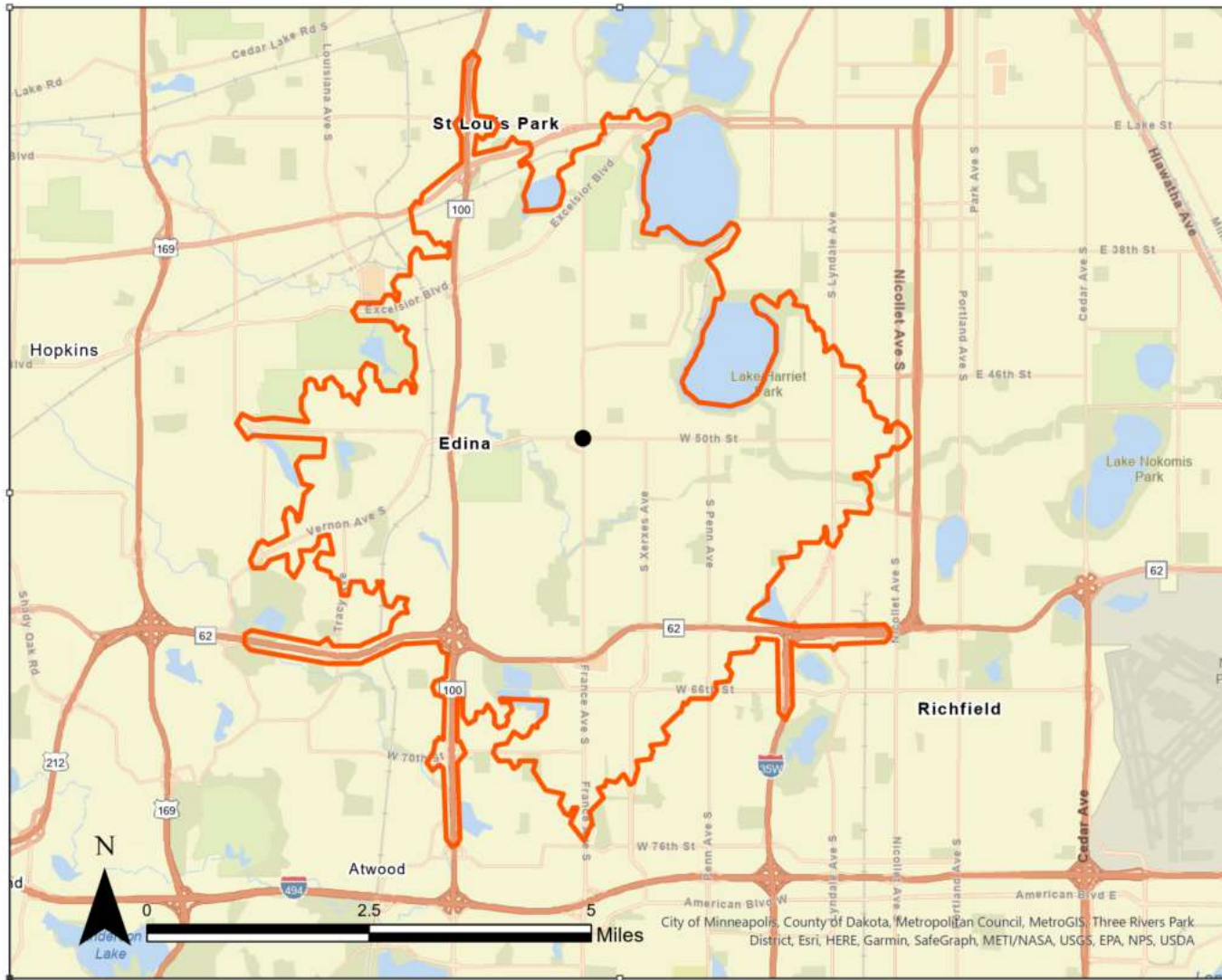
Source: ESRI; LOCi Consulting LLC

Selby-Dale 7-Minute Drive-Time Trade Area



Source: ESRI; LOci Consulting LLC

50th-France 7-Minute Drive-Time Trade Area



Source: ESRI; LOCi Consulting LLC

6 Population and Population Growth, 7-Minute Drive Time Trade Areas

	Estimate	Forecast	Annual Growth
	2020	2025	2020-2025
Grand Avenue TA	216,141	224,507	0.8%
Ford-Cleveland TA	152,539	159,701	0.9%
Snelling-Selby TA	269,706	281,025	0.8%
West Seventh-Grand TA	247,709	256,561	0.7%
Selby-Dale TA	285,556	296,122	0.7%
50th-France TA	175,491	182,948	0.8%
City of Saint Paul	304,197	314,129	0.6%
City of Minneapolis	424,175	449,479	1.2%
Minneapolis-Saint Paul CBSA	3,678,099	3,863,078	1.0%

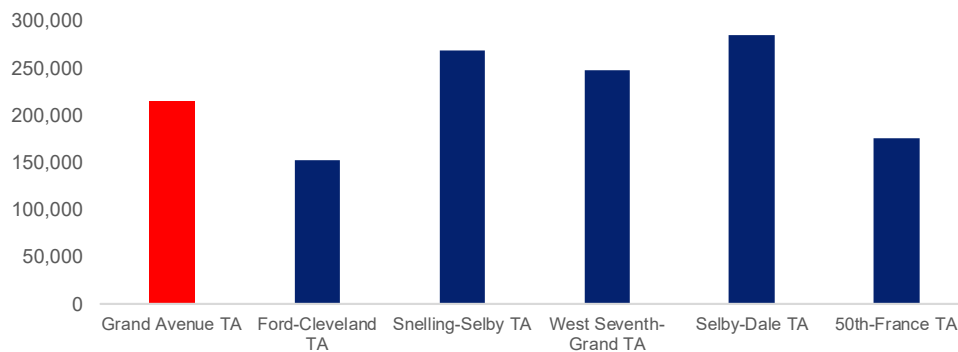
Source: US Census Bureau; ESRI; LOCi Consulting LLC

7 Households and Household Growth, 7-Minute Drive Time Trade Areas

	Estimate	Forecast	Annual Growth
	2020	2025	2020-2025
Grand Avenue TA	87,143	90,825	0.8%
Ford-Cleveland TA	66,026	69,142	0.9%
Snelling-Selby TA	111,418	116,227	0.8%
West Seventh-Grand TA	98,511	102,148	0.7%
Selby-Dale TA	111,763	116,011	0.7%
50th-France TA	79,678	83,099	0.8%
City of Saint Paul	118,489	122,410	0.7%
City of Minneapolis	181,084	192,807	1.3%
Minneapolis-Saint Paul CBSA	1,422,339	1,493,053	1.0%

Source: US Census Bureau; ESRI; LOCi Consulting LLC

8 Total Trade Area Population, 2020



Source: US Census Bureau; ESRI; LOCi Consulting LLC

9 Projected Annual Population Growth, 2020 to 2025



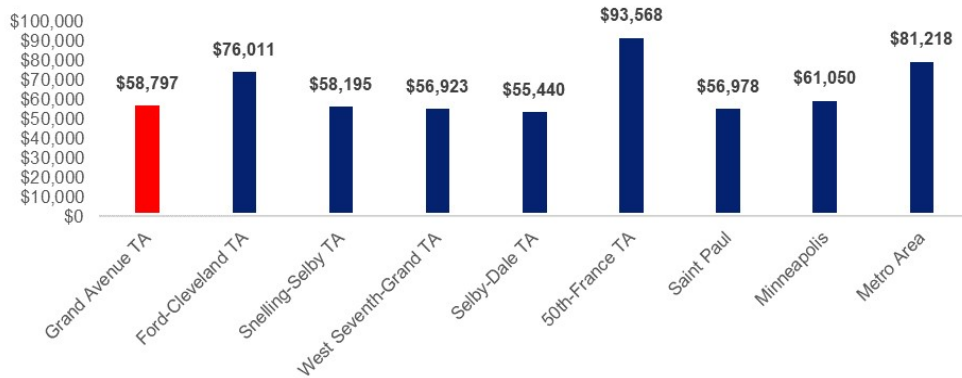
Source: US Census Bureau; ESRI; LOCi Consulting LLC

10 Median Household Income and Income Growth, Trade Area

	Estimate	Forecast	Annual Growth Rate
	2020	2025	2020-2025
Grand Avenue TA	\$58,797	\$63,726	1.6%
Ford-Cleveland TA	\$76,011	\$81,859	1.5%
Snelling-Selby TA	\$58,195	\$62,818	1.5%
West Seventh-Grand TA	\$56,923	\$61,206	1.5%
Selby-Dale TA	\$55,440	\$59,317	1.4%
50th-France TA	\$93,568	\$102,682	1.9%
City of Saint Paul	\$56,978	\$61,074	1.4%
City of Minneapolis	\$61,050	\$67,113	1.9%
Minneapolis-Saint Paul CBSA	\$81,218	\$87,649	1.5%

Sources: US Census Bureau; ESRI; LOCi Consulting LLC

11 Median Household Income in Trade Area, 2020



Source: US Census Bureau; ESRI; Loci Consulting LLC

Households with Incomes Greater than \$50,000 and \$75,000

Figures 12 and 13 show the number of households with incomes above \$50,000 and \$75,000. This data is often considered by retail site selectors because unlike median income it is not skewed by outliers both high and low.

- The Grand Avenue Trade Area has a base of about 50,000 households with incomes above \$50,000 and about 36,000 households with incomes above \$75,000.
- While there is some variation in this metric, most of the trade areas are comparable.

Daytime Population

Figures 14 and 15 show the daytime population in the trade areas. This population includes residents

who remain in the area during the day plus employees who travel to the area to work. Retailers use this data to understand additional sales that may come from employees not represented in the residential population consumer spending data.

Included in the figures is a ratio of daytime population to resident population. This data can be read as the percentage increase or decrease in population each workday as employees enter the trade area. For example, the ratio for the Grand Avenue Trade Area is 1.16, meaning the population increases about 16% each day with employees.

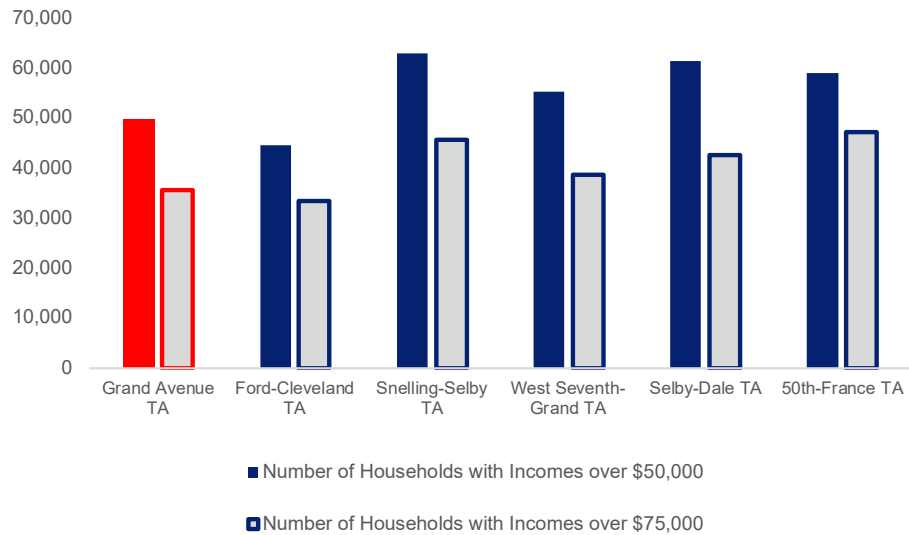
This data is not adjusted to account for the new hybrid working model adopted by many employers during the COVID-19 pandemic. As a result, it likely overrepresents employment in the trade areas.

12 Household Incomes, 7-Minute Drive Time Trade Areas

	Number of Households with Incomes over \$50,000	Number of Households with Incomes over \$75,000
Grand Avenue TA	49,782	35,678
Ford-Cleveland TA	44,564	33,477
Snelling-Selby TA	62,857	45,536
West Seventh-Grand TA	55,248	38,579
Selby-Dale TA	61,298	42,629
50th-France TA	58,893	47,157

Source: US Census Bureau; ESRI; LOCi Consulting LLC

13 Household Incomes, 7-Minute Drive Time Trade Areas



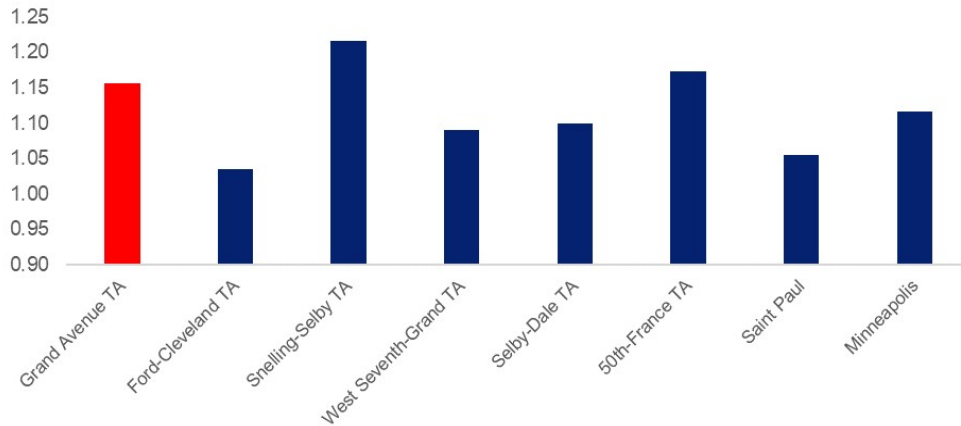
Source: US Census Bureau; ESRI; LOCi Consulting LLC

14 Daytime Population in 2020

	Daytime Population	Resident Population	Ratio of Daytime to Resident
Grand Avenue TA	249,863	216,141	1.16
Ford-Cleveland TA	157,886	152,539	1.04
Snelling-Selby TA	327,849	269,706	1.22
West Seventh-Grand TA	269,833	247,709	1.09
Selby-Dale TA	313,924	285,556	1.10
50th-France TA	205,766	175,491	1.17
City of Saint Paul	320,873	304,197	1.05
City of Minneapolis	473,578	424,175	1.12
Minneapolis-Saint Paul CBSA	3,688,263	3,678,099	1.00

Source: US Census Bureau; ESRI; LOCi Consulting LLC

15 Ratio of Daytime Population to Resident Population in 2020



Source: US Census Bureau; ESRI; LOCi Consulting LLC

Households by Age and Income

Figure 16 shows households by age and income for the Grand Avenue Trade Area. Figure 17 shows the median income by age for the Grand Avenue Trade Area compared to the Metro Area.

- Figure 17 shows that median incomes in the Grand Avenue Trade Area are lower than the

Metro Area across all age groups. This data reflects that the Trade Area includes some areas of Saint Paul with more moderate incomes.

- But these incomes also reflect the fact that households in the Grand Avenue Trade Area are smaller, more likely to select into an apartment unit in the city than a single-family home.

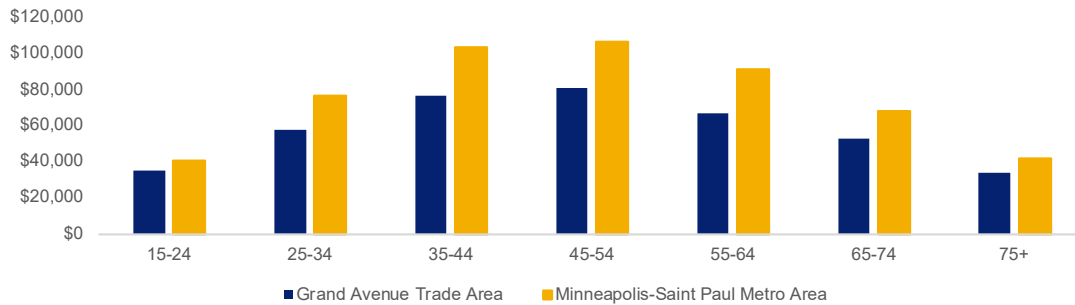
16 Households by Age and Income in Grand Avenue Trade Area

2020							
	Age of Householder						
	15-24	25-34	35-44	45-54	55-64	65-74	75+
Less than \$15,000	1,551	2,295	1,541	1,456	2,092	1,543	1,539
\$15,000-\$24,999	872	1,325	750	600	965	1,021	1,222
\$25,000-\$34,999	905	1,936	1,175	888	1,046	1,002	914
\$35,000-\$49,999	1,069	2,684	1,621	1,183	1,423	1,648	1,100
\$50,000-\$74,999	933	2,995	2,372	2,215	2,565	1,945	1,079
\$75,000-\$99,999	524	2,536	2,131	1,556	1,728	1,377	386
\$100,000-\$149,999	487	2,692	2,752	2,372	2,104	1,042	428
\$150,000-\$199,999	150	1,244	1,516	1,507	1,280	484	165
\$200,000+	206	1,012	1,399	1,764	1,615	900	321
Median HH Inc.	\$35,200	\$57,289	\$76,500	\$80,639	\$66,439	\$52,390	\$33,625
State of Minnesota	\$40,754	\$76,311	\$102,869	\$105,852	\$90,773	\$67,730	\$41,646

2025							
	Age of Householder						
	15-24	25-34	35-44	45-54	55-64	65-74	75+
Less than \$15,000	1,533	2,009	1,484	1,323	1,775	1,551	1,813
\$15,000-\$24,999	869	1,151	679	511	794	958	1,285
\$25,000-\$34,999	908	1,793	1,153	799	927	1,051	1,107
\$35,000-\$49,999	1,138	2,572	1,643	1,130	1,305	1,764	1,361
\$50,000-\$74,999	1,002	2,936	2,412	2,038	2,366	2,144	1,337
\$75,000-\$99,999	578	2,579	2,298	1,547	1,632	1,550	514
\$100,000-\$149,999	577	3,002	3,097	2,460	2,118	1,251	623
\$150,000-\$199,999	185	1,521	1,900	1,668	1,440	639	297
\$200,000+	223	1,205	1,831	1,989	1,775	1,202	507
Median HH Inc.	\$36,904	\$63,699	\$82,909	\$88,485	\$73,518	\$56,471	\$36,765
State of Minnesota	\$43,439	\$83,439	\$108,841	\$111,989	\$100,640	\$76,096	\$45,869

Sources: ESRI; LOCi Consulting LLC

17 Median Income by Age of Householder in Grand Avenue Trade Area, 2020



Sources: ESRI; LOCi Consulting LLC

Consumer Expenditure

Figure 18 and 19 show consumer expenditure in the Grand Avenue Trade Area, including estimates for 2020 and forecasts for 2025. This data comes from ESRI and is used to forecast demand for retail space in the market. Only consumer spending categories associated with retail purchases are shown in the data.

- In 2020, it is estimated that households in the Grand Avenue Trade Area spend \$754 million on consumer goods.
- Using estimated establishment revenue data from ESRI, LOCi Consulting estimates that the trade area loses about 30% of those expenditures to retailers outside of the trade area. This estimate of sales leakage is used in the demand calculations for retail space.
- The two categories projected to see the largest growth in consumer expenditure are grocery and restaurants.
- COVID-19 has clearly impacted the retail sector. Restaurants, apparel stores, electronics, and furniture stores have all seen significant sales declines year over year. However, according to the January release of the Advance Monthly Retail Trade Survey found overall retail sales were up 5.8% in January 2021 year over year, driven by

growth in non-store sales (e-commerce), home improvement, grocery stores, and general merchandise stores.

- Because this analysis examines retail real estate as an entire class, consumer expenditure forecasts have not been adjusted to account for impacts related to COVID-19. Demand calculations are adjusted to account for the increasing prevalence of e-commerce sale, however.

Commercial Retail Real Estate Market

Using data from CoStar—a national commercial real estate data service used by commercial brokers and retail site selectors—LOCi Consulting reviewed retail real estate data for Grand Avenue and the other retail nodes.

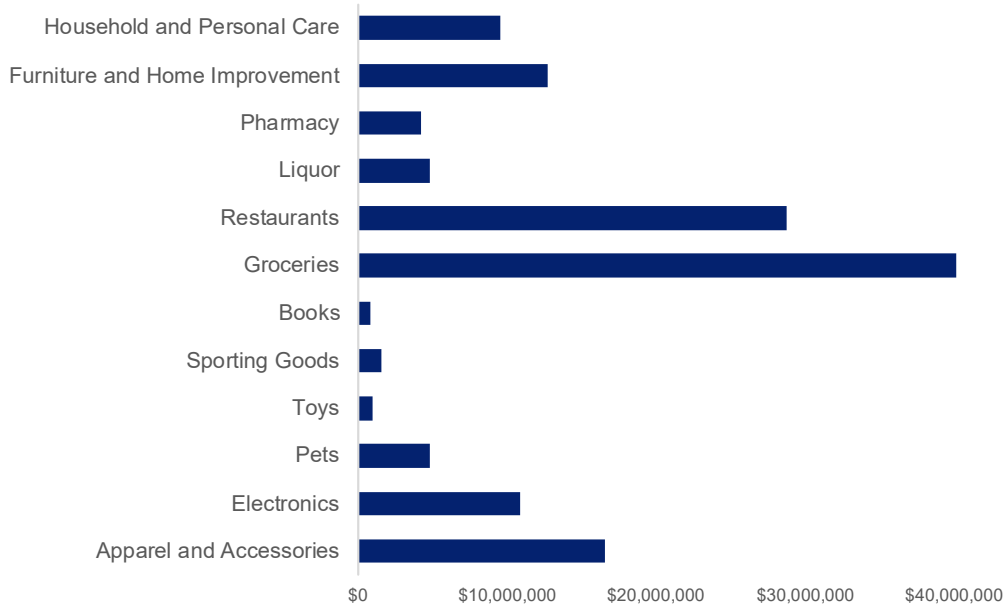
CoStar data is not perfect. It does not include vacant data that is not being listed by brokers. Therefore, it is likely an underrepresentation of the actual vacancy rate. Two examples of vacant space missing from the calculations are the HeathEast space in *Grand Place* which is vacant but not yet available, and the *Avon Corner* building, where the Loft and North Face spaces are vacant but not available. This data is also missing restaurant space temporarily closed due to the pandemic.

18 Consumer Spending in Retail Categories In the Grand Avenue Trade Area

	Estimate 2020	Forecast 2025	Growth 2015-2020
Apparel and Accessories	\$92,009,682	\$108,541,940	\$16,532,258
Electronics	\$60,452,727	\$71,328,155	\$10,875,428
Pets	\$26,705,796	\$31,513,486	\$4,807,690
Toys	\$5,227,551	\$6,171,055	\$943,504
Sporting Goods	\$8,512,632	\$10,049,842	\$1,537,210
Books	\$4,474,104	\$5,277,351	\$803,247
Groceries	\$223,232,018	\$263,326,842	\$40,094,824
Restaurants	\$160,073,229	\$188,839,038	\$28,765,809
Liquor	\$26,497,695	\$31,247,595	\$4,749,900
Pharmacy	\$23,085,351	\$27,244,738	\$4,159,387
Furniture and Home Improvement	\$70,728,761	\$83,436,849	\$12,708,088
Household and Personal Care	\$52,978,301	\$62,512,869	\$9,534,568
Total	\$753,977,847	\$889,489,760	\$135,511,913

Source: US Census Bureau; ESRI; LOCi Consulting LLC

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



Source: US Census Bureau; ESRI; LOCi Consulting LLC

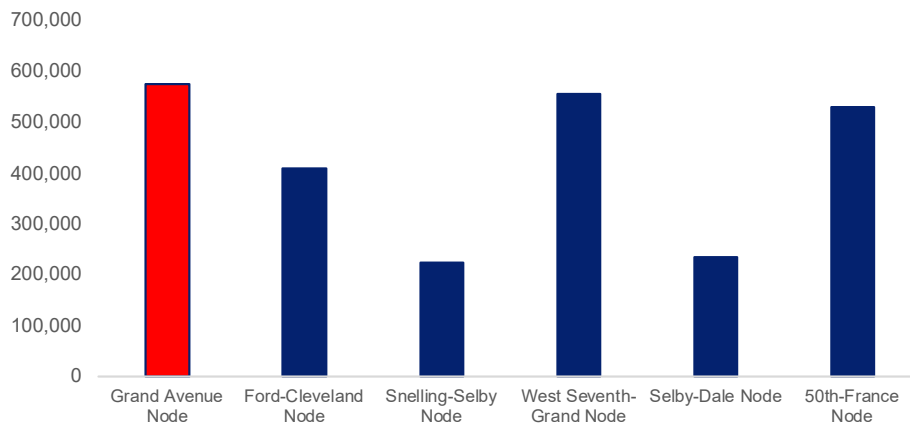
20 Commercial Retail and Restaurant Space Data from CoStar

	Total Retail Square Footage	Vacant Square Footage	Vacancy Rate	Average Retail Rents *
Grand Avenue TA	574,293	46,234	8.1%	\$32.88
Ford-Cleveland TA	408,084	13,535	3.3%	\$24.39
Snelling-Selby TA	223,249	625	0.3%	\$33.08
West Seventh-Grand TA	555,284	21,913	3.9%	\$20.19
Selby-Dale TA	233,980	7,642	3.3%	\$20.60
50th-France TA	529,116	63,752	12.0%	\$31.80
Minneapolis-Saint Paul CBSA	204,000,000	7,140,000	3.5%	\$18.51

* Rents are average of last five years

Source: Costar; LOCi Consulting LLC

21 Total Retail Square Footage in the Retail Node from CoStar



Source: CoStar; LOCi Consulting LLC

This data is used by many stakeholders in the real estate market, so it provides good information about the state of the market

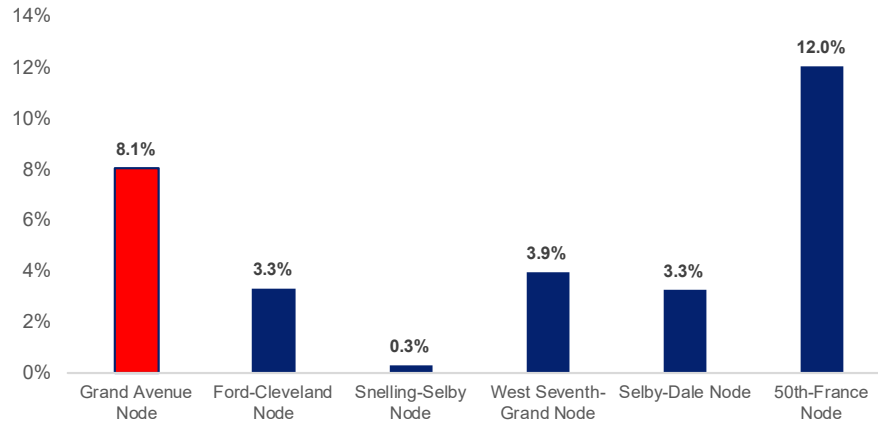
Figures 21 through 23 show the total square footage in each retail node, vacant square footage, and average rents.

- The Grand Avenue Retail Node is the largest of the profiled retail nodes with 574,000-square feet of retail space. This number includes traditional

storefront retail along with many of the single-family homes that have been converted to commercial space along the corridor.

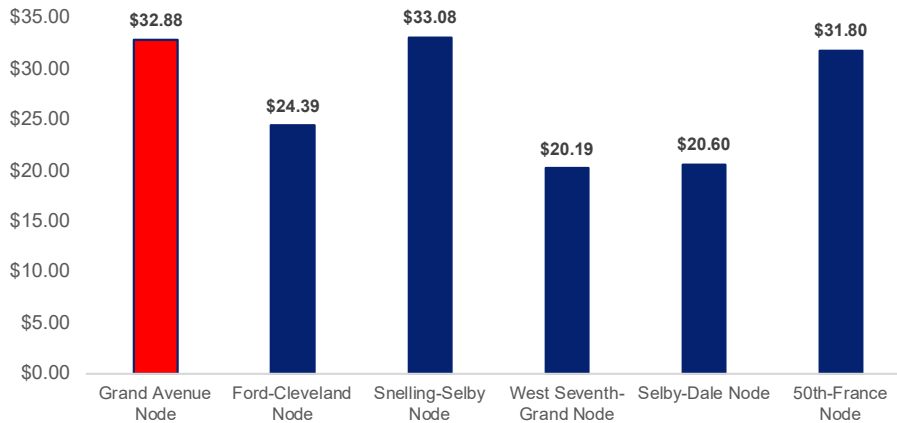
- With an 8.1% vacancy rate, the Grand Avenue Retail Node is the second highest. The 50th-France Retail Node is 12.0%, but that is because new retail space has come online in 2019 and 2020 at the *Nolan Mains* development.

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



Source: CoStar; LOCi Consulting LLC

23 Average Retail Rent Rates in the Retail Node from CoStar



Source: CoStar; LOCi Consulting LLC

- Stated earlier, this data likely underrepresents the actual vacant space in the area. There are several vacant spaces that landlords are not marketing as available and several restaurant spaces that are temporarily closed and face uncertain futures.
- The estimated average rental lease rate is \$32.88 per square foot per year in the Grand Avenue Retail Node. That rate is comparable with the average rates at the Snelling-Selby and 50th-France retail nodes.
- This rate is pulled from properties that include some expenses in the rent and properties that

24 Average Retail Rent and Vacancy Rates in Grand Avenue Retail Node



Source: CoStar; LOCi Consulting LLC

- include no expenses (called “triple net rents”). It does not include common area maintenance charges and property taxes.
- Because the retail nodes profiled are relatively small compared the overall Metro Area market or even submarkets within the Metro Area, a few properties can have significant impacts on the data.
- Figure 24 shows the historic average rent and vacancy data for the Grand Avenue Retail Node. With a range of results over this period, this data shows the volatility of such a small sample size.
- Overall average retail rents in the Grand Avenue have fluctuated between \$20 and \$35 per square foot per year in the node, and average vacancies have generally been below 10%.
- In addition, comparable listings for other retail nodes are also shown. There are 12 additional listings for those nodes.
- Quoted lease rates range from \$19.50 per square foot per year to \$52 per square foot per year.

Selected Retail Lease Listings

Figure 25 shows selected retail lease listings for the retail nodes profiled.

- There are 10 active listings for the Grand Avenue Retail Node, with spaces ranging from 190-square feet to 6,000-square feet (the former Creative Kidstuff space).

25 Selected Retail Space for Lease

Property	Year Built	Gross Leasable Area	Available	Vacancy	Quoted Lease Rate	Parking Ratio (Spaces per 1,000 sf)
Grand Avenue Retail Node						
1104-1110 Grand Ave	1949	10,050	1,645	16%	\$32.88	NA
700 Grand Ave	2003	14,000	2,400	17%	Not Disclosed	3.8
733 Grand Ave	1984	10,214	4,000	39%	Not Disclosed	2.8
Victoria Crossing East Mall 857 Grand Ave	1915	17,270	5,181	30%	Not Disclosed	0.3
Victoria Crossing West 867 Grand Ave	1922	35,256	3,200	9%	Not Disclosed	2.7
Grand Place 870 Grand Ave	2001	65,860	5,428	8%	Not Disclosed	3.0
1064-1068 Grand Ave	1935	4,000	2,603	65%	Not Disclosed	2.8
1071 Grand Ave	1965	8,500	2,377	28%	Not Disclosed	1.6
1074 Grand Ave	1948	6,003	6,003	100%	Not Disclosed	1.3
1123 Grand Ave	1913	3,926	190	5%	Not Disclosed	1.5

Continued on Next Page

Source: Listings, CoStar; Interviews, LOCi Consulting LLC

25 Selected Retail Space for Lease (Continued)

Property	Year Built	Gross Leasable Area	Available	Vacancy	Quoted Lease Rate	Parking Ratio (Spaces per 1,000 sf)
Ford-Cleveland Retail Node						
704-720 S Cleveland Ave	1955	20,020	1,080	5%	Not Disclosed	1.5
Highland Shopping Center 2004-2056 Ford Pky	1939	82,948	10,147	12%	Not Disclosed	3.5
Highland Village Center 2128-2144 Ford Pky	1975	58,136	2,308	4%	Not Disclosed	3.7
Snelling-Selby Retail Node						
1581-1593 Selby Ave	1914	625	625	100%	\$48.00	NA
West-Seventh-Grand Retail Node						
961-965 7th St W	1886	5,000	1,335	27%	\$25.60 - 30.86	NA
261-265 W 7th St W	1895	14,605	1,178	8%	\$20.00	NA
50th-France Retail Node						
50th & France 3939 W 50th St	1977	25,000	1,163	5%	\$19.50	1.6
The Pinehurst Building 4999 France Ave S	2001	42,104	10,519	25%	\$27.00	3.0
5041 France Ave S	1989	7,600	2,400	32%	\$52.00	NA
4924 S France Ave	1972	1,903	1,903	100%	\$45.00	NA
5037 S France Ave	1989	8,404	750	9%	\$32.00	4.3
Minneapolis/Kalsybro Buildir 5047-5057 S France Ave	1984	9,380	1,260	13%	\$26.00	2.4

Source: Listings, CoStar; Interviews, LOCi Consulting LLC

Retail Trends and Market Demand

This section presents key retail trends for 2021 and beyond. This section also provides high level estimates of demand for retail space on Grand Avenue in the near-term.

Retail real estate has seen dramatic change in the last 10 years. Even prior to the coronavirus pandemic, shifting incomes, changing consumer preferences, and the growth of e-commerce had resulted in a significant number of store closures and shuttered shopping centers across the country. With the pandemic, many of these trends that were negatively impacting retail have accelerated. Other trends that were trending positive—like the growth of health clubs and experiential retail—have now reversed and slowed considerably.

On the flip side, many retail concepts have done well during the coronavirus pandemic. Grocery stores, liquor stores, and home improvement are all areas

that have seen strong sales during this period. And retail concepts that have been able leverage their e-commerce operations and alternative methods of delivery—like curbside pickup—have been able to maintain most of their sales.

While there have been significant disruptions, the traditional analytic lens of retail has stayed relatively consistent. Based on an understanding of consumer spending in an area and the ability to target the right retail to capture that spend, the framework provides a tool to understand how these shifts drive changes in demand for retail space.

Retail and restaurant space can be found in malls, shopping centers, and freestanding buildings—both individual structures and street-front business districts. Mixed-use projects where retail is combined with residential or office have also become popular with developers and local planners.



Buy online pick-up in store sign at Pottery Barn on Grand Avenue

Retail is often viewed along a spectrum of convenience versus destination. Convenience retailers are grocery stores, drugstores, liquor stores, home improvement stores, coffee shops, and quick-service and fast-casual restaurants. At the destination end of the spectrum are department stores, apparel and accessories stores, furniture, electronics, sporting goods, higher-end restaurants. General merchandisers and clubs—like Costco, Target, and Walmart—seek to capitalize on spend from both ends of the spectrum.

The location of a planned retail development determines which types of retail will succeed. Convenience locations need more frequent trips and generally higher population densities to drive smaller purchases and support lower margins. Destination retail may need higher incomes and proximity to similar types of retail to support the fact that their customers make less frequent trips to their establishments.

Key Retail Trends for 2021 and Beyond

Here are key trends in retail that will impact the amount and types of space that retailers will demand on Grand Avenue.

1. The coronavirus pandemic permanently changed the way consumers shop.

Buy online and pickup in-store (BOPIS) was already a major trend for retail headed into the pandemic, but COVID-19 put gasoline on the fire. To address safety concerns, retailers quickly developed curbside pickup, enhanced drive-through, delivery, and online ordering capabilities. And consumers responded and adopted these new methods of transaction. Now that the recovery has begun, consumers are showing no indication that they will return to their habits prior to the pandemic. Curbside pickup and delivery are here to stay.

2. Weak and struggling retail concepts will continue to disappear from the market.

Retailers who lacked cash, have heavy amounts of debt, or who were already suffering sales declines were forced into bankruptcy in 2020 to levels not seen in more than a decade. Some retailers that were able to stay afloat during 2020 because of rent

concessions or stimulus payments will not make it through 2021. Bottom line, there will be fewer stores and retailers in 2022 than there were in 2021.

3. Large general merchandise players like Amazon, Target, Walmart, and Costco will build on gains they have made during the pandemic.

The big winners of 2020 were the large general merchandise retailers. These “one-stop shop” businesses benefited consumers by reducing the number of trips necessary to fulfill their needs. In addition, they all have sophisticated e-commerce platforms that allowed them to dominate local grocers, many of whom struggled to quickly develop online ordering, curbside, and delivery options.

4. Grocery and convenience retail will continue to be viewed as an essential anchor for retailers.

Community and neighborhood shopping centers with a grocery anchor did well in the pandemic and indoor shopping malls did terribly. Consumers are spending more of their discretionary and essential spending online, but grocery stores and other convenience retail have been able to maintain sales. Smaller retailers will look to position themselves near these convenience traffic drivers. And malls will continue to consider adding grocery stores as anchors.

5. Direct to consumer brands and online-only retailers will continue to look for traditional brick and mortar space to leverage their consumer relationship.

Continuing a trend that began before the pandemic, online-only retailers are seeking out brick and mortar locations to leverage their presence in a market. They have realized that an actual physical presence boosts online sales. Many of these retailers look to unique and interesting shopping districts, like Grand Avenue, 50th and France, and North Loop,



Mobile order pickup sign at Dairy Queen on Ford Parkway

to capture the attention of their target market. This trend may present an opportunity for Grand Avenue.

6. E-commerce will continue to grow but will experience growing pains.

With the dramatic acceleration of e-commerce in 2020, the cracks began to show. Employee shortages at distribution centers, a taxed postal service, and technology glitches and crashes meant that consumers were often left feeling disappointed. And, because of the cost structures, online retail is often much less profitable than an in-store transaction. Retailers know they must do e-commerce to be competitive, but the overall trend is driving down the bottom line.

7. Consumers will be financially stressed from the pandemic and that is bad for retailers.

Income and wealth disparities that were happening prior to the pandemic were exacerbated and become more entrenched. Millions of workers lost their jobs, and the economy has only just began to recover. With declines in incomes come declines in consumer spending. Retailers who were able to find a large

target market in middle income consumers are now finding that that market is shrinking.

8. Rapid changes in technology will mean even more dramatic changes to retail in the future.

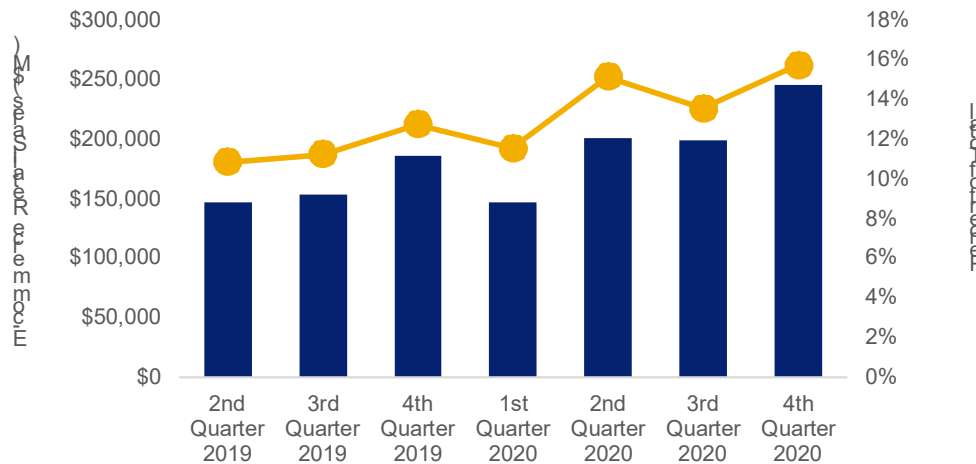
The 5G revolution in mobile technology will generate new shopping experiences and new consumer products, changing the way that customers experience shopping. Maybe more important, it will reduce cost structures for retailers in their distribution and operations, possibly opening opportunities for new brick and mortar locations and touchpoints for customers.

E-commerce Retail Sales

Continuing trends that started in the 1990s, e-commerce has become a larger portion of total retail sales in the last five years, with double digit percentage growth year over year. This trend has accelerated in 2020 as more people have remained at home during the COVID-19 pandemic.

Figure 19 shows data from the US Census on e-commerce as a percent of total retail sales.

26 Estimated Quarterly E-commerce Retail Sales, United States



Source: Quarterly Retail E-commerce Sales, US Census Bureau; ESRI; LOCi Consulting LLC

Depending on the retailer reporting, this data may include sales at the store that were ordered for pickup online.

- E-commerce retail spending jumped from 11.5% in the first quarter of 2020 to 15.1% in quarter two. By the fourth quarter of 2020, the percentage was 15.7%.
- Forester Research has forecast that this figure could grow to 25% by 2025.
- For purposes of our demand analysis, LOCi Consulting uses a 20% figure. We believe this will be the average percentage over the 2020 to 2025 period.
- As more retailers transition to “omnichannel” formats, consumer demands for e-commerce options will continue to grow. There will always be “Amazon-proof” businesses that will ensure that much of retail is still done in brick-and-mortar locations. And retailers will limit e-commerce options because the economics of e-commerce can be challenging—margins for goods sold online are generally lower. But consumers

will continue to demand the convenience that these channels offer, and we believe growth will continue.

Retail Demand Calculation

Figure 27 shows the retail demand calculation for the Grand Avenue Trade Area between 2020 and 2025. The calculation starts with consumer expenditure on key retail categories.

Based on data from ESRI, about 30% of the spending in the Trade Area happens at establishments outside of the Trade Area. This type of spending includes sale at big-box stores and other regional retailers that would be unlikely to locate in the Trade Area. Those sales are removed from the total.

Based on the analysis in the previous section, we remove e-commerce sales, using a 20% of sales estimate. Finally, these sales are converted to square footage and existing vacant space is subtracted from demand. The existing space estimate comes from the vacant space identified in Figure 20, including vacant space in all four Saint Paul nodes. The planned and proposed space comes from the mixed-

27 Retail Space Demand Calculation, 2020-2025

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

Source: ESRI; LOCi Consulting LLC

use analysis in the following section. For the *Highland Bridge* project, only half of the proposed space is used, as that project’s timeline extends beyond the 2020 to 2025 period.

Based on this analysis, we project there will be surplus of retail space in the Grand Avenue Trade Area, estimated to be between 13,000- and 76,000-square feet.

That figure includes retail nodes across the Grand Avenue Trade Area, not just Grand Avenue. Based on the 90,000-square feet of vacant space currently in the Trade Area, this surplus would mean an increase of between 12% and 80% of vacant space in the Trade Area.

Mixed-Use Case Studies

To understand the scale and scope of potential mixed-use projects along Grand Avenue, LOCI Consulting reviewed recent mixed-use projects in Saint Paul. This section of the study presents an overview of projects that were recently completed, under construction, and have been proposed or planned. Case studies of five projects are presented. And potential sites for mixed-use project along Grand Avenue are discussed.

Recent Neighborhood Mixed-Use Development in Saint Paul

LOCi Consulting collected data on neighborhood mixed-use projects in Saint Paul. We define neighborhood projects as those that occur outside of the Saint Paul Central Business District. These projects are representative of the types of projects that could be developed on Grand Avenue. Note that the list of projects identified is not exhaustive. The purpose of this analysis is to understand the scope and scale of these projects, not to provide a full

inventory. That said, we believe we have identified most properties.

Maps of mixed-use projects recently completed, under construction, and planned and proposed follow.

Completed Projects

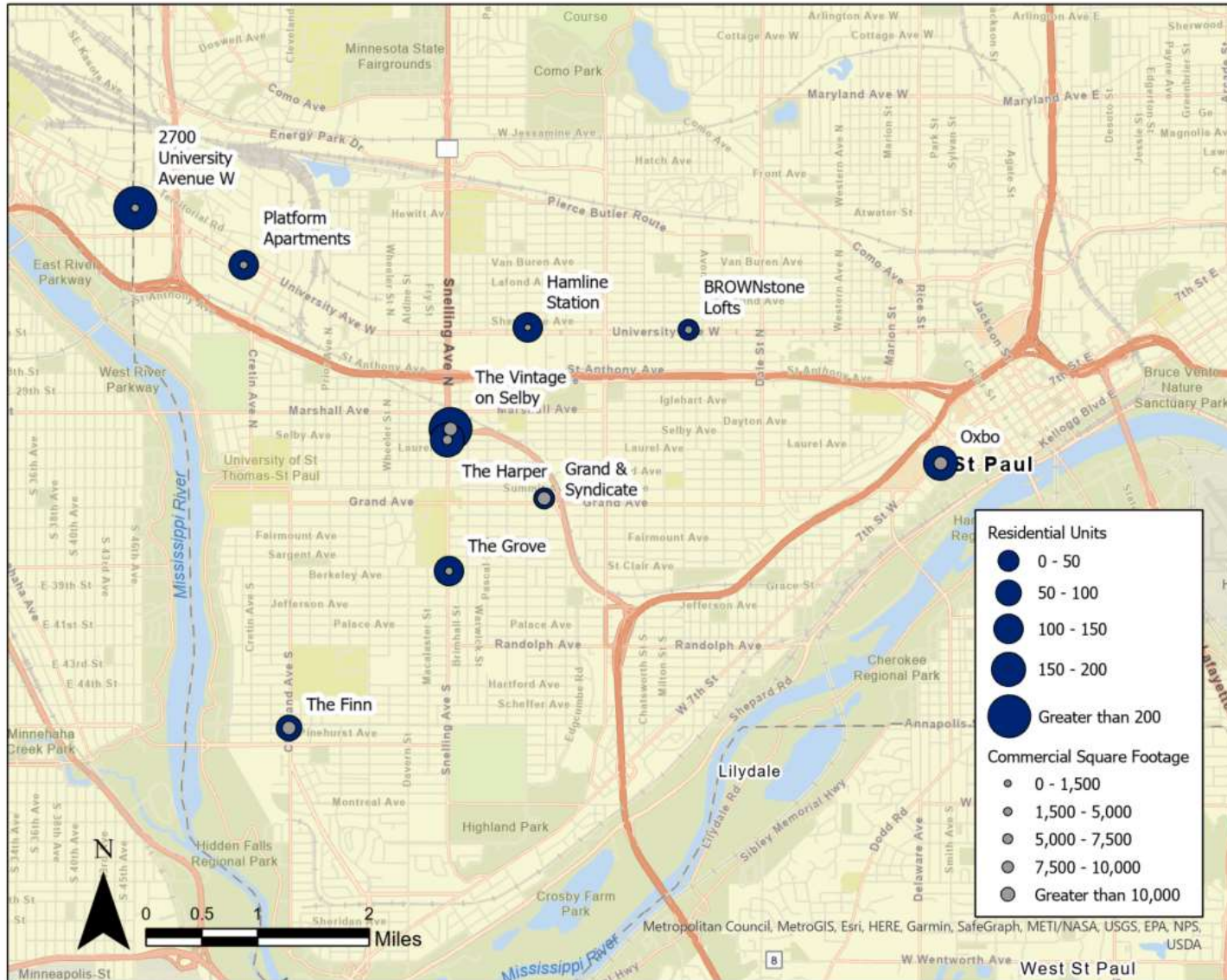
Figure 28 shows identified neighborhood projects completed between 2015 and 2020.

- Ten projects were identified in neighborhoods near Grand Avenue.
- The total number of units is 1,279. Of those, it is estimated that about 350 are classified as affordable and the rest are market rate. All of the projects are rental.
- The average project size is 128 units. The average number of units does not differ significantly for projects that are market rate versus affordable.



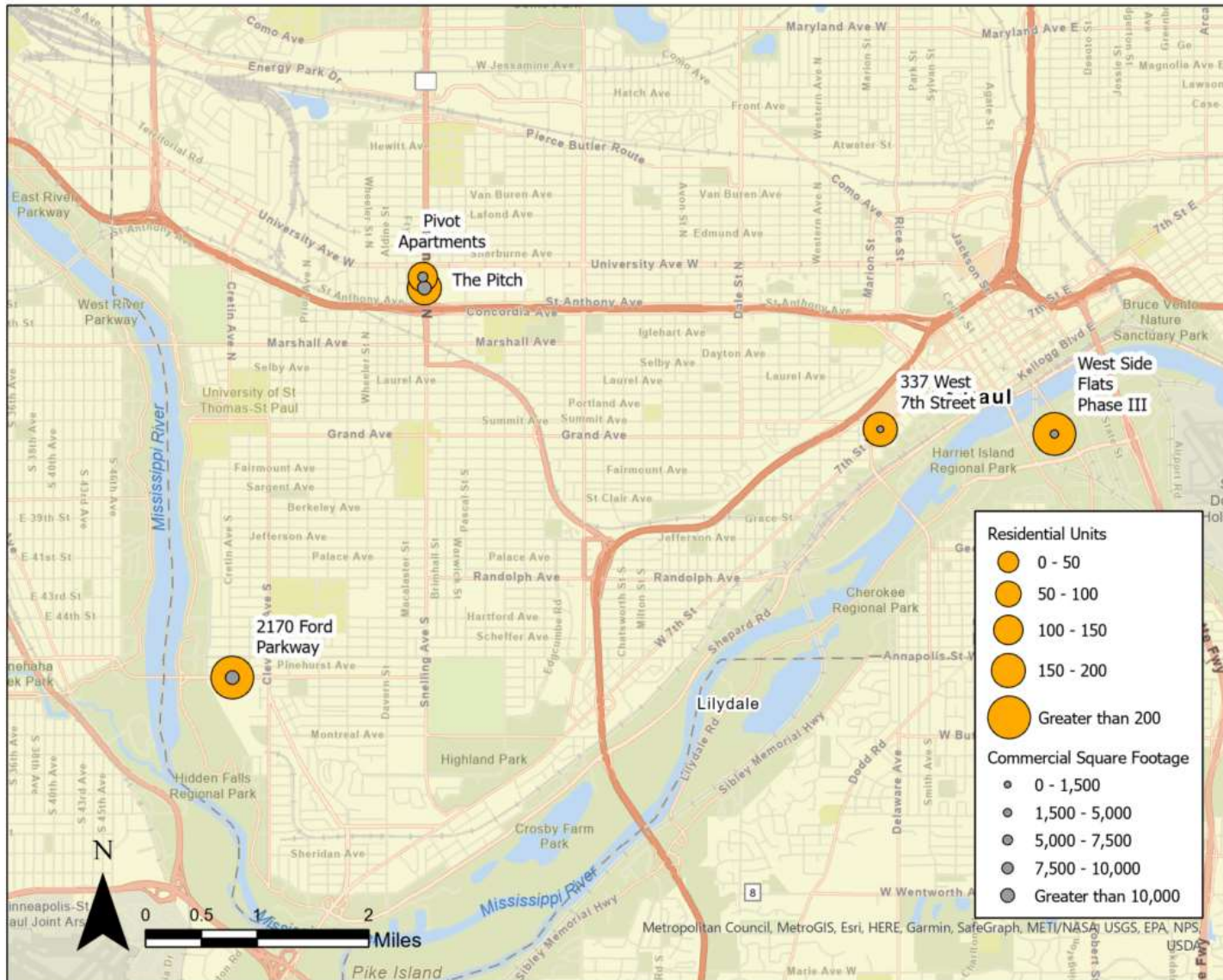
Oxbo development on West Seventh Street, looking northeast

Completed Neighborhood Mixed-Use Development Projects near Grand Avenue, 2015-2020



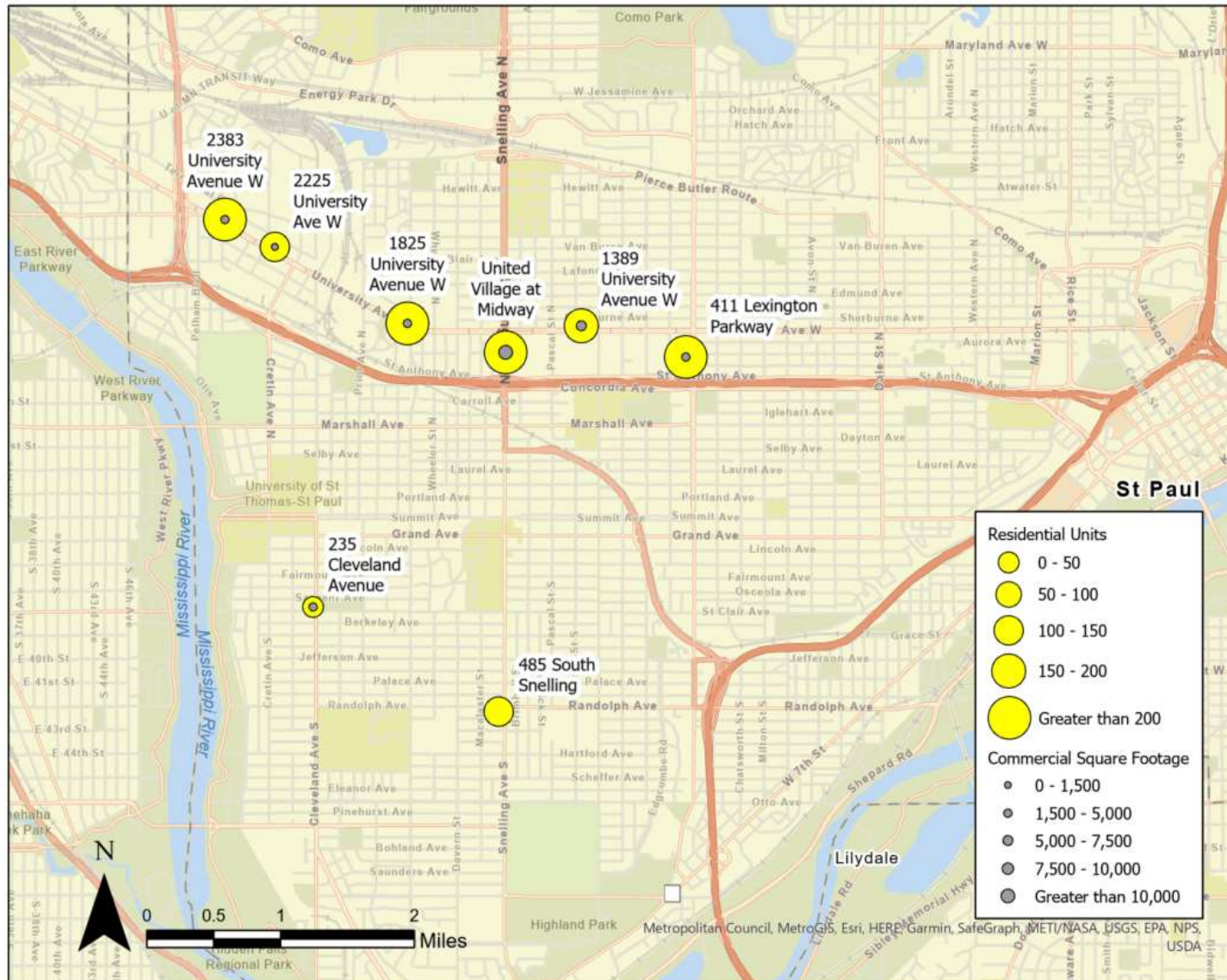
Source: ESRI; LOCi Consulting LLC

Neighborhood Mixed-Use Development Projects Under Construction near Grand Avenue



Source: ESRI; LOCi Consulting LLC

Proposed or Planned Neighborhood Mixed-Use Development Projects near Grand Avenue



Source: ESRI; LOCi Consulting LLC

28 Neighborhood Mixed-Use Developments in Saint Paul, 2015 to 2020

Property	Year Opened	Units	Rental Type	Commercial Space	Type	Build. Height	Acres
Platform Apartments 747 Hampden Avenue	2020	123	Market-Rate	4,261	Retail	5	0.94
The Harper 150 Snelling Avenue	2020	163	Market-Rate	7,000	Retail	5	1.23
The Grove 246-258 Snelling Avenue	2019	118	Market-Rate	4,295	Retail	6	0.70
Grand & Syndicate 33-45 Syndicate Street S	2018	26	Market-Rate	11,300	Retail/ Office	4	0.35
BROWNstone Lofts 839 University Avenue W	2017	35	Affordable	2,545	Retail	4	0.42
The Finn 725 Cleveland Avenue S	2017	57	Market-Rate	20,000	Retail/ Office	4	0.32
Oxbo 202 7th Street W	2017	191	Market-Rate	11,294	Retail	6	1.62
2700 University Avenue W 2700 University Avenue W	2016	248	Market/ Affordable	5,000	Retail	6	5.01
The Vintage on Selby 1555 Selby Ave	2015	210	Market-Rate	39,506	Retail	5	2.70
Hamline Station 1333 University Avenue W	2015	108	Affordable	1,300	Retail	4	1.69

* Neighborhood means locations outside of Saint Paul's Central Business District

Source: Costar; Interviews, LOCi Consulting LLC

- The total commercial space in these projects is about 107,000-square feet. About one-third of that space—39,000-square feet—is the Whole Foods at *The Vintage on Selby*.
- The ratio for commercial square footage per residential unit is 125-square feet per unit.
- The average number of stories is five. None of the projects have fewer than four stories.
- The average acreage required for these projects is 1.5 acres, but that average is skewed by one large project. Half of the projects sit on land that is below one acre in size.

- The average number of units per acre is 107. For market-rate projects only, the average is 125 units per acre.

Projects Under Construction, Planned, or Proposed

Figure 29 shows identified neighborhood projects that are either currently under construction or have been proposed or approved. As with Figure 28, this list is only projects in neighborhoods and is not an exhaustive survey.

- Five projects are under construction, with a total of 964 residential units.

- Total commercial space for projects under construction is 82,000-square feet. Of that total, 51,000-square feet is the Lund's and Byerly's project in *Highland Bridge*.
- Nine projects were identified that are proposed or planned, with a total of 1,445 residential units.
- The total amount for commercial space in the planned and proposed project is about 82,000-square feet.
- The average project size is 185 units for projects under construction or planned—an increase of 48% over recently completed projects.

29 Identified Planned or Approved Neighborhood Mixed-Use Developments in Saint Paul, 2015 to 2020

Property	Expected Start	Units	Rental Type	Commercial Space	Type	Build. Height	Acres
Under Construction							
2170 Ford Parkway 2170 Ford Parkway <i>Ryan Companies</i>	2021	230	Market-Rate	51,000	Retail	6	NA
Pivot Apartments 455 Snelling Avenue N <i>Scannell Properties</i>	2020	137	Market/ Affordable	7,000	Retail	6	0.60
The Pitch 427 Snelling Avenue N <i>Wellington Management, Inc.</i>	2020	152	Market-Rate	18,000	Retail	6	0.41
337 West 7th Street 337 West 7th Street <i>Ackerberg</i> <i>Northland Real Estate Group LLC</i>	2020	192	Market-Rate	1,400	Retail	7	0.60
West Side Flats Phase III 71 Livingston Avenue <i>Sherman Associates</i>	2020	253	Market/ Affordable	5,000	Retail	6	5.00

Continued on Next Page

NA = Not available.

* Neighborhood means locations outside of Saint Paul's Central Business District

Source: Costar; Interviews, LOCi Consulting LLC

**29 Identified Planned or Approved Neighborhood
Mixed-Use Developments in Saint Paul, 2015 to 2020 (Continued)**

<u>Property</u>	<u>Expected Start</u>	<u>Units</u>	<u>Rental Type</u>	<u>Commercial Space</u>	<u>Type</u>	<u>Build. Height</u>	<u>Acres</u>
Planned or Proposed							
1825 University Avenue W 1825 University Avenue W <i>Reuter Walton Development</i>	2021	243	Affordable	2,500	Retail	6	3.00
United Village at Midway Snelling and Shields Avenues <i>Snelling Midway Redevelopment LLC</i>	2021	234	Market-Rate	65,000	Retail/ Office	17 12	2.40
411 Lexington Parkway 411 Lexington Parkway <i>Alatus, LLC</i> ***Rejected by Planning Commission, Developer appealing to City Council***	2021	288	Market-Rate/ Affordable	3,300	Retail	6	2.00
2383 University Avenue W 2383 University Avenue W <i>Kraus Anderson</i>	2021	220	Market-Rate	2,200	Retail	6	0.37
1389 University Avenue W 1389 University Avenue W <i>Anderson Companies</i>	2021	180	NA	5,400	Retail	6	0.67
2225 University Ave W 2225 University Ave W <i>Yellow Tree, LLC</i> <i>Paster Development</i>	2022	147	Market-Rate	1,390	Retail	5	1.00
121 S Livingston Avenue 121 S Livingston Avenue <i>Weidner Apartment Homes</i>	2022	NA	NA	NA	NA	NA	NA
485 South Snelling 485 South Snelling <i>Oppidan</i>	2022	110	Market-Rate	NA	NA	5	0.56
235 Cleveland Avenue 235 Cleveland Avenue <i>Oppidan</i>	2022	23	Market-Rate	2,600	NA	5	0.28

NA = Not available.

* Neighborhood means locations outside of Saint Paul's Central Business District

Source: Costar; Interviews, LOCi Consulting LLC



The Finn on Cleveland Avenue, looking northwest

- The average number of units per acre for projects in the pipeline is 215 units per acre—an increase of 68% over recently completed projects.

Profiled Mixed-Use Developments

LOCi Consulting profiled five projects that are included in Figure 28. We collected data on unit sizes, rents, occupancy, and features and amenities. The projects selected represent the type of development that could occur on Grand Avenue.

A map of the five projects profiled follows.

Figure 30 shows the residential unit detail for the profiled projects, including unit sizes, rents, and vacancies. Figure 31 shows features and amenities for those projects. Figure 32 shows the commercial space.

- Five projects are profiled. All are rental and all are market rate.
- The profiled projects have a total of 574 units. The average size of the profiled projects is 115 units.

- The vacancy rate for the profiled projects is 19%.
- However, two of the projects opened in 2019 and 2020 and are still in their initial lease-up phase. When those projects are removed, the vacancy rate is 10%.
- The equilibrium vacancy rate is 5%. These higher vacancy rates suggest that absorption of these units may be slower than expected.
- Rents range from \$1,073 for a studio at *The Grove* to \$3,041 for a townhome unit at *The Vintage on Selby*.
- Average rent per square feet ranges from \$1.72 to \$3.14.
- Except for *The Grove*, all of the projects have parking ratios above 1.0 parking stall per residential unit. *The Grove* has 87 parking stalls for 118 units.
- Typical monthly parking fees are \$125 to \$150 per month.



Grand & Syndicate on Grand Avenue, looking northwest



The Grove on Snelling Avenue, looking east

Profiled Mixed-Use Development Projects near Grand Avenue



Source: ESRI; LOCi Consulting LLC



30 **Profiled Market-Rate Rental Mixed-Use Developments--Residential Space**

Property	Units	Vacant Units	Unit Type	Size of Unit	Base Rent	Rent per Square Foot	Buildings and Parking
The Harper 150 Snelling Avenue Saint Paul, MN 55104	163	52	Studio 1BR 2BR	415 - 672 560 - 797 917 - 1,067	\$1,145 - 1,575 \$1,445 - 2,075 \$2,130 - 2,625	\$2.34 - 2.76 \$2.60 - 2.58 \$2.46 - 2.32	Five-story building with 190 off-street parking stalls--32 stalls dedicated for retail and 136 for residents. Garage parking is \$125.
<i>Year Built: 2020</i>							
The Grove 246-258 Snelling Avenue Saint Paul, MN 55105	118	24	Studio 1BR 2BR 3BR	479 - 717 629 - 786 874 - 1,183 1,344	\$1,073 - 1,537 \$1,373 - 1,891 \$2,143 - 2,804 \$2,899	\$2.14 - 2.24 \$2.41 - 2.18 \$2.37 - 2.45 \$2.16	Six-story building with 98 off-street parking stalls--11 stalls dedicated for retail and 87 for residents. Garage parking is \$150 per month.
<i>Year Built: 2019</i>							
Grand & Syndicate 33-45 Syndicate Street S Saint Paul, MN 55105	26	0	Studio 1BR 2BR	497 575 - 1,044 863 - 1,011	\$1,295 \$1,432 - 2,415 \$1,791 - 2,098	\$2.61 \$2.31 - 2.49 \$2.08 - 2.08	Four-story building with 46 off-street parking stalls, two levels of underground parking.
<i>Year Built: 2018</i>							
The Finn 725 Cleveland Avenue S Saint Paul, MN 55116	57	5	Alcove 1BR 2BR	506 - 643 694 - 1,001 1,089 - 1,521	\$1,590 - 1,665 \$1,995 - 2,440 \$2,890 - 4,520	\$2.59 - 3.14 \$2.44 - 2.87 \$2.65 - 2.97	Four-story building with 76 off-street parking stalls, two levels of parking. Garage parking is \$125.
<i>Year Built: 2017</i>							
The Vintage on Selby 1555 Selby Avenue Saint Paul, MN 55104	210	25	Studio 1BR 2BR 3BR TH	428 - 610 630 - 949 1,062 - 1,300 1,249 - 2,585 1,771	\$1,312 - 1,412 \$1,537 - 1,922 \$2,242 - 3,204 \$4,128 - 6,439 \$3,041	\$2.31 - 3.07 \$2.03 - 2.44 \$2.11 - 2.46 \$3.31 - 2.49 \$1.72	Five-story building with 495 off-street parking stalls--200 dedicated for retail and 295 for residents. Garage parking is \$125-\$150.
<i>Year Built: 2015</i>							

Source: Interviews; Apartments.com; Costar; LOCi Consulting LLC



The Vintage on Selby, looking northeast



The Harper on Snelling Avenue, looking east

31 Amenities and Features at Profiled Developments

Property	In-Unit Features				Common Area Amenities								
	Patio/Balcony	In-Unit Washer/Dryer	Washer/Dryer Hookup	Walk-in Closet	Elevator	Business Center	Community Room	Laundry Facility	Fitness Center	Patio/Terrace	Indoor Pool	Outdoor Pool	Private Theater
The Harper	X	X		X	X	X	X		X	X		X	
The Grove	X	X		X	X	X	X		X	X			
Grand & Syndicate	X	X		X	X		X			X			
The Finn	X	X		X	X		X			X			
The Vintage on Selby	X	X		X	X	X	X		X	X		X	

S = Some units

Source: Interviews; Apartments.com; CoStar; LOCi Consulting LLC



Mixed-use development under construction in downtown Saint Paul (not profiled)

32 Profiled Market-Rate Rental Mixed-Use Developments-Commercial Space

Property	Commercial Space	Available Commercial Space	Listed Lease Rate	Notes
The Harper 150 Snelling Avenue Saint Paul, MN 55104 <i>Year Built: 2020</i>	7,000	7,000	Not Listed	Space was going to be set aside for O'Gara's Irish Bar and Restaurant. Soon to be occupied as restaurant space.
The Grove 246-258 Snelling Avenue Saint Paul, MN 55105 <i>Year Built: 2019</i>	4,295	4,295	Not Listed	4,295-square feet of space is currently listed. 11 parking spaces are reserved for retail on the first level.
Grand & Syndicate 33-45 Syndicate Street S Saint Paul, MN 55105 <i>Year Built: 2018</i>	11,300	0	Not Available	10,000 SF office space on second level leased by At Home Apartments. Rest of space is leased by Community Title and Escrow.
The Finn 725 Cleveland Avenue S Saint Paul, MN 55116 <i>Year Built: 2017</i>	20,000	0	Not Available	9,500 SF of office space leased by Edina Realty. Remainder is leased by Alchemy 365, Agra Culture, and Para Salon.
The Vintage on Selby 2700 University Avenue W Saint Paul, MN 55116 <i>Year Built: 2015</i>	39,506	0	Not Available	Commercial space occupied by Whole Foods Market.

Source: Interviews; Apartments.com; Costar; LOCi Consulting LLC

- Projects typically offer balconies, in-unit washer and dryer, community rooms, and community terraces. Most projects offer a fitness center, and some offer a business center. We expect that business centers will become increasingly popular.
- Three of the projects have fully occupied commercial space. *The Harper* has secured a tenant for its restaurant space.
- Commercial lease rates were not shared.
- Parking is made available onsite for commercial tenant customers.

Opportunities for Mixed-Use Development on Grand Avenue

LOCi Consulting identified potential development sites that could work for mixed-use development along Grand Avenue. Consistent with the projects profiled in this section, we selected parcels on Grand Avenue that are greater than 0.4 acres in size. There are projects with smaller parcel sizes in the data selected, but this size was determined to best reflect a potential project. Next, we removed projects where the built structure was newer than 2000, to eliminate projects where redevelopments have already occurred. The properties that meet these criteria are shown on the map that follows.

Mixed-Use Development Opportunity Sites on Grand Avenue



Source: ESRI; LOCi Consulting LLC

33 Potential Mixed-Use Development Sites on Grand Avenue

Property	Address	Acres	Year Structure Built	Notes
Locations with Most Potential				
Dixie's Restaurant	695 Grand	0.83	1979	Dixie's Site
Avon Corner Building	791 Grand	0.70	1904	Proposed L&B project
Pier 1 Imports Building	733 Grand	0.56	1984	Currently a portion is for lease
Willwerscheid Funeral Home	1167 Grand	0.88	1941	Mid-block commercial
US Bank building	1071 Grand	0.60	1965	Access to site could be challenging
Locations for Consideration				
Milton Mall	917 Grand	1.15	1916	Older building, remodeled
Victoria Crossing East Mall	857 Grand	0.63	1915	Older multitenant building
Victoria Crossing South	850 Grand	0.49	1927	Older multitenant building
656-666 Grand	664 Grand	0.49	1928	Tavern on Grand building
Victoria Crossing West Mall	865 Grand	0.48	1922	Older multitenant building
Locations with Limited Potential				
745 Grand	745 Grand	0.46	1981	Existing residential building
Kowalski's Market	1261 Grand	1.32	1956	Site just redeveloped
Charlemagne Fine Jewelry	1262 Grand	0.41	1896	Small site, challenging access

Source: Ramsey County Property Records; Costar; LOCi Consulting LLC

Other sites could come up that would require assembling multiple parcels, but those would be more challenging because of multiple landowners.

Figure 33 shows the parcels identified, organized by locations with the most potential, locations that should be considered, and locations with limited potential. Five sites were identified that could have the most potential. The sites are discussed below along with scale recommendations based on mixed-use projects reviewed in this section. The ratio of units per acre is 107 to 215.

- **Dixie's Restaurant site.** This site has been proposed as a mixed-use building with residential and restaurant space on the first level. Based on the ratios, the 0.83-acre site could support between 90 and 170 units.
- **Avon Corner Building.** This site has been proposed as a mixed-use development with a

Lund's and Byerly's grocery store on the first level and residential above. This 0.70-acre site could support between 75 and 150 units.

- **Pier 1 Import building.** To our knowledge, this site has not been proposed as a mixed-use project. This site could support between 50 and 110 units.
- **Willwercheid Funeral Home.** This site could support between 90 and 185 units. Retail development at this site might be a challenge because the site is not at a "main and main" intersection.
- **US Bank building.** To our knowledge, this site has not been proposed as a mixed-use development. Based on the acreage, this site could support 65 and 125 units. Assess to potential parking at this site could be challenging because of its mid-block location.



The number of units supported is solely based on the acreage and typical sizes of projects reviewed in this study. These figures do not reflect market support for the number of units. A market study would be recommended to determine the level of

demand in the market for the number of units discussed. The figures also do not account for building heights or land or construction costs. They are simply comparisons with other projects currently being developed in Saint Paul.

Interviews

LOCi Consulting interviewed 15 relevant stakeholders to better understand the retail real estate environment and mixed-use development in the Grand Avenue Retail Node. That group included commercial brokers, mixed-use real estate developers (both market-rate and affordable developments), retail and shopping center executives, retail consultants, and a community planner.

LOCi Consulting is not listing the names of the stakeholders in most cases because some were concerned that their opinions would be viewed as their organization's position, and they did not want to give that impression

The comments from the interviews are organized around themes.

Grand Avenue Versus Other Retail Nodes

Grand Avenue is a unique retail node with assets that will continue to make it successful.

- One broker who has worked on development in the Grand Avenue corridor said there is still opportunity. "We are still very bullish on Grand Avenue," he said. He said the area has strong demographics that should appeal to any retailer.
- Grand Avenue has a feel that makes it attractive to businesses, both local and national, said a broker. The neighborhood should find a way to encourage this diversity but realize that rents make this a challenge. "The area has the building blocks to create an environment where all of these groups can survive and thrive," he said.
- A commercial developer said that the thing Grand Avenue has going for it is that it has a sense of place. He said suburban retail developments are attempting to capture this feel and are often failing. He said the challenge is to capitalize on this asset with the economic conditions present.
- While a commercial developer said there are challenges, he said, there is demand for new

housing in the area and this demand creates excitement for the commercial in the area.

- Neighborhood groups and developers need to think about the totality of the street when they have their discussions, said a community planner. You must find a way to strike the balance. "Grand is cutesy, homey, it's one of a kind," he said.
- One broker said that Grand Avenue will continue to be a great location for restaurants, services, home goods, and clothing and accessories retailers.

But Grand Avenue has not evolved.

- There is a perception that retail along Grand Avenue is strong, but that is not true, said a broker. "Retailers along Grand Avenue do just okay," he said. National retailers have chosen Grand Avenue to "plant their flag" in Saint Paul and then are oftentimes disappointed with the results.
- No retailer is coming into the market looking at Saint Paul as a location, according to a broker. He said they look to locations in Eagan, Roseville, and Woodbury. If they are willing to consider an urban location, they look to Minneapolis. "Saint Paul isn't on anyone's radar," he said.
- Another broker said that retail is not as strong as it used to be on Grand Avenue. "Retailers just do mediocre. It's not the 'must be' location anymore. It used to be up there with 50th and France in Edina," she said. She said that one reason that 50th and France has performed better is that it is more compact than Grand Avenue—everything is right in walking distance.
- Like the previous comment, a local developer said that one of the challenges with Grand Avenue is that it is a long stretch of commercial. He said neighbors want it to be a walkable district, but it is too long to be easily walkable. He said that exacerbates parking issues with the neighborhood, where retailers need the parking, but neighbors want walkability.

- A developer who has not done development along Grand Avenue said people think of Grand Avenue as older, wealthy, and slightly elitist. He joked that people in the development community think of the typical resident as “Thurston Howell, the Third.” He also used the word “stodgy.”
- Another challenge identified by a commercial developer is the number of older homes currently being used for retail space. He said these locations do not attract the kinds of business that drive energy to the area. “You walk up on to a porch to shop. You don’t see what is going on in the business. It’s not a good shopping experience,” he said. Compared to Highland Village, which has almost none of this type of inventory, Grand Avenue has a lot of properties like this.
- One developer said that Grand Avenue is a great place to buy a wedding dress, but he does not consider it a strong restaurant and retail area. It would not be a place he would focus on for commercial development. He said the neighborhood vibe is local boutiques, not strong national and local brands.
- A developer said that many of the national retailers are leaving areas like Grand Avenue because they are shrinking their entire footprint. “It isn’t 1980s retail anymore. It’s not ‘shop ‘til you drop’ anymore,” he said.
- One broker said that the relationship between landlords and the neighborhood is too contentious. He said landlords care about their properties and the area. “Landlords pick up trash. They plant flowers. They want the community to look nicer,” he said. But the neighborhood does not appreciate that.
- The unrest expected around the George Floyd trials is a major problem for the cities of Saint Paul and Minneapolis, according to a broker. One said that he has worked with many restaurant concepts in the past that would have looked at Grand Avenue to open a new spot. Now these same businesses are saying that they want to be in a suburban location.
- “This last year was terrible,” said one broker. “We have worked so hard to build something in the cities of Minneapolis and Saint Paul.”
- One broker said that the potential for trouble around the George Floyd trials is a real problem in the short term and landlords and retailers are concerned.

The COVID-19 pandemic has caused a revolution in retail.

- One retail consultant said you cannot overstate how impactful the pandemic has been to retail. “What happened in the last 12 months...would have over the natural lifecycle taken 10 years,” she said. “Consumers are going to be the winners from all of this.”
- One retail consultant said the pandemic has given creative thinkers within organizations the platform to launch ideas. “The decisionmakers used to say, ‘That’s expensive. That’s not proven. That doesn’t help my bottom line.’ Now those decisionmakers are listening to people focused on new concepts. This is their time to shine.”
- A retail consultant said that COVID-19 has accelerated every retailer’s omnichannel strategy. Consumers will demand e-commerce across all categories. He said he is working with a national auto service business that is trying to understand how to best to service work at the consumer’s home. The consumer orders the part, and a van delivers and installs. No need for a shop on an expensive retail corridor. That is where we are going, he said.
- A retail consultant said that the line between shopping and distribution has been blended for retailers. He said retailers are taking their existing spaces and retrofitting them to provide of e-commerce production. Best Buy is a good

Retail Real Estate Trends and Grand Avenue

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

- One broker said that the political unrest around the George Floyd trial is a major problem that has the potential to become a long-term problem if protests get out of hand again.

example. The company is remodeling stores with more backspace to handle this type of commerce.

- The amount of space needed for omnichannel shopping at a site is dependent on the type of retailer. A retail consultant said that for a retailer whose average basket is one or two products, less space is necessary because they can pick from the sales floor inventory. For retailers whose basket size is 25 to 30 items, they need more specialized backroom for those transactions, or the cost to put the order together is too high. That means smaller spaces generally for boutiques and discretionary retailers and larger specialized spaces for convenience and non-discretionary retail. “I would think at some point a Lund’s and Byerly’s is going to have a specialized curbside space in each store with automation to reduce the cost of picking items,” he said.
- Even for restaurants, the omnichannel experience has expanded beyond where we thought it would, said a retail consultant. “Take Chipotle, I haven’t ordered in the store since I discovered how easy the app is to use,” he said.
- While some retailers are looking for smaller spaces, others are staying the same size or growing, according to a retail consultant. For retailers with complex on-site e-commerce processing, they are repositioning existing space, others may be expanding into vacant adjacent space.
- Commercial space on Grand Avenue will need to evolve into the hybrid mindset of retail and fulfilment, according to a retail consultant. That is what retail space will become.
- Other trends that neighborhoods should be watching is the development of ghost kitchens, mini-distribution centers, and dark stores. One retail consultant said that, to get distribution as close to the consumer as possible, retailers and restaurants are looking at spaces where customers do not visit. The space is only for e-commerce fulfilment. These types of spaces would not work well on Grand Avenue because of costs, but they will compete for consumer spend with retail on Grand.

- If you are leasing retail space today, health and medical should be a part of your strategy, said one retail consultant. “Who do you focus on? It’s medical,” she said.

But the economic turmoil that came with COVID-19 pandemic is not over.

- One developer said there just a lot of uncertainty in the market. “No one really knows what inning we are in,” he said.
- One broker said she sees August as a critical month when many businesses will run out of stimulus assistance. She said she thinks vacant space could double then.
- A broker said that this is a very unstable time for retail real estate overall. With bankruptcies, store closures, rent concessions and abatements, the relationships between landlords and tenants are still in a state of flux. “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,” he said.
- One developer said that the next few years will be a tenant’s market. He said that if you want to understand what the commercial market will look like in 2021 and 2022, look to 2008 and 2009. “Landlords are going to have to get creative,” he said.
- A broker said landlords and restaurants would likely be doing percent only deals for the next two years. But that landlords will not want to extend those deals past that period and will look to more traditional rent structures.
- For retailers looking for space in this environment, they are all thinking about pricing in the space and how long can the business survive, a broker said. For restaurants, along with the typical considerations of local incomes, traffic counts, and parking, they are thinking “can I operate a ghost kitchen in my space through next year.”

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

- One broker said the Lund’s and Byerly’s development would be an anchor to other businesses in the area. He said convenience and essentials are so important now, and that development would create a traffic driver for other retailers in the immediate area. He pointed to the development at the Whole Foods market on Selby and Snelling as a good example of how a traffic driver can create momentum in an area. “The best thing [the neighborhood] could do is help Lund’s and Byerly’s get their project approved. Don’t roll over on it, but be a constructive partner,” he said.
- Another broker agreed. She said that the Lund’s and Byerly’s project will drive retail trips to the area. “That project is very important for the long-term success of the corridor,” she said.
- Mitch Avery of Lund’s and Byerly’s said the costs of running an urban store are higher than a suburban store. Grocers in urban areas must use smaller trucks, have more traffic moving through the store causing more wear and tear, must hire more security, and have higher labor costs. And this was before they had to deal with the pandemic. But he said they see a good opportunity in this area, and they think they could make the right deal work.

Urban retailers are looking for creative ways to reach their customers.

- One broker said retailers are looking for smaller spaces. “We are seeing a contraction of size of space. They are finding that they don’t need as much space as they used to,” she said. That has meant subdividing some spaces into smaller blocks. And that can become a juggling act for landlords, who would prefer one tenant for the space.
- Pop-up shops are also something that landlords should consider on Grand Avenue, said one retail consultant. These temporary spaces can provide showroom opportunities for retailers that have a primarily on-line presence. They generate excitement for the area and drive traffic. But they are also temporary and may occupy space that a more permanent retailer would look to take.

Many of the stakeholders believe property taxes limit retail opportunities on Grand Avenue.

- In Saint Paul, the taxes are “crushing,” said a developer.
- Property taxes are a problem, said a broker. “If Grand Avenue fails, it will be the fault of the city and these taxes.”

Market rents for retail existing retail space is between \$20 and \$30 per square foot.

- A broker said the market rents for Grand Avenue are between \$20 and \$30 per foot per year, “at the main and main location.”
- One broker said that new construction for retail developments would require \$50 to \$60 rents per square foot.

Parking on Grand Avenue

Parking on Grand Avenue works well, generally.

- Most of the parking studies that have been done for the area come to the same conclusion—leave things as they are, said a community planner. But that may not be the right answer. Restaurants and retailers need to draw people into the area from Eagan, Woodbury, and Maplewood to be successful on Grand Avenue, he said. That may mean rethinking how and where to add parking.
- One developer said that parking on the street on Grand Avenue works now for most businesses, and any changes could jeopardize that balance.
- Grand Avenue has done a good job regulating parking, said a broker. “Don’t do what Uptown did. Don’t get rid of all your street parking for bike lanes,” he said. Make sure the parking requirements are right. “Not everyone is going to walk to your store,” he said. Understand that underground parking requirements add to the cost of the development.

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

- Curbside pickup is not going away, according to a retail consultant. “These situations are here to stay,” he said. Curbside and delivery are now an essential component of most retailers’ business.

Cities and neighborhoods will have to accommodate curbside parking and delivery vehicles, or retailers will find locations that do. Retailers will absolutely need “fast parking of some sort.”

- A retail consultant said neighborhoods and cities need to understand the new delivery environment. DoorDash, Uber Eats—these services are now an integrated part of the restaurant business, and it is likely they will only grow in popularity. That means cities and neighborhoods will have to work with developers and businesses to provide space to allow these services to function.

National Versus Local Businesses

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

- “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. But those businesses are truly struggling. “It remains to be seen how they are going to look going forward.”
- Landlords would be thrilled to do the right deal with a local “mom and pop” shop, said a broker. They love the creativity and excitement that they bring.
- One broker said that landlords do not have different rents for national businesses versus local business. “Landlords have the rent they need for their proforma, and that rent is what they need,” she said.

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

- A commercial developer said landlords in the area are targeting B- and C-credit tenants because the nationals are not interested—they want to be at regional and super-regional shopping centers. Those landlords are trying to find new and growing categories in retail but cannot offer them large tenant improvement allowances. Some of these smaller retailers would do better in places with lower rents.

- One broker said that well-run local businesses on Grand Avenue are often confused with national retailers. He said he put one business in the Victoria Crossings building and the owners were told that residents would not shop the store because it was national. He said some of the perceptions about who is really making a living on Grand Avenue can be wrong.
- Another broker echoed this thought. She pointed to the fact that national brands are often franchises and the owners live in the neighborhood.
- Asked about the credit issues that landlords might consider for disposition, one broker said that most landlord along Grand Avenue are long-term holders of the property and focus on getting the right rent and terms for their property, and less on the credit of the tenant. Plus, she said, credit for tenants has become less important, because the national retailers have had credit problems too.
- A person involved with retail development on Grand Avenue said that credit national tenants made the deal work. “To do a project, you have to have credit tenants to get the financing. We needed [national retailer] to do the deal,” he said.
- Another broker said that for new development, the credit issue can be more important. Because the risk is higher, investors want to see a higher level of credit on committed leases.
- One broker leased a space for \$40 per square foot rent and \$20 per square foot combined common area maintenance and taxes. She said the total occupancy cost of \$60 per square foot would not be affordable to a small business. “It’s the taxes that make this unaffordable,” she said.
- One broker interviewed said that property taxes on Grand Avenue are a major reason that smaller businesses struggle. She said taxes are very high along the corridor and it means that only larger businesses can afford the total occupancy costs of being on the corridor. She said she realized that the association could not help with that issue.

What the Summit Hill Association Can Do

Other than serving as a cheerleader and coordinating stakeholders, there are no easy solutions for the district council.

- One mixed-use developer said that the neighborhood or business association could reach out to brokers and developers to support their work. He said that the business association at 50th and France has done a good job communicating and holding events. He said they do a good job of getting everyone on the same page.
- A broker suggested using Tax Increment Financing to keep commercial rents low enough to support local businesses.
- Provide tools to help businesses develop their e-commerce capabilities, said one retail consultant.
- One consultant said that small business would benefit from sharing commercial space. She said that organizations should work with property owners to develop these types of space.

Mixed-Use Development

Mixed-use projects can be a way to create marketable restaurant and retail space on Grand Avenue.

- For owners of existing properties that are becoming tired, redevelopment into mixed use may be the best opportunity. One developer said that looking at redeveloping into a commercial only project did not make sense because the rents were too low. He said, "You get to a point where you have to do something."
- One developer pointed out that some developers build and hold. For those developers having a legacy project is important. He said he wants to own for the long-term and ultimately to pass the property on to his children.
- Mitch Avery of Lund's and Byerly's said his executive team were surprised by the occupancy costs for the grocery portion of their proposal. He said market rents on Grand Avenue are \$20 to

\$30 along Grand Avenue. And, he said, they typically pay below slightly below market rents because they are occupying so much space. But at the proposed project on Grand Avenue, the occupancy costs were well above \$40. He said those costs can work because of the returns on the entire project. "The housing is everything," he said.

- Brokers suggested that residential components within mixed-use projects have become critical because it allows developers to spread costs across the entire project, keeping commercial rents in an area where business can afford them.
- One developer said that, looking back on mixed-use condominium projects that were done in the 2000, he now wishes that they had done apartments. He said that continuing income provides stability for the property, especially considering some of the uncertainty around retail and restaurant space.
- A developer who has worked on projects in the area said that the housing concepts have been well received. People want to stay in the neighborhood and live in a maintenance free and secure home. But they will not move into a 100-year-old brownstone apartment that has stairs and no air conditioning.

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

- A commercial broker said his advice to apartment developers is not to do commercial space. "Unless you've got a Chipotle deal lined up for that space, it's going to be hard to lease. Just do more apartment units if you can," he said.
- One broker said that Grand Avenue needs to avoid becoming like Lake Street and Wayzata Boulevard, where the cities required so much mixed use and now it is all vacant. That situation is not good for existing businesses or new businesses.
- Mixed-use developers with space that is tough to lease will often prefer to keep it vacant, rather than commit to a \$10 or \$12 per square foot lease, one broker said. For owners who may want to sell

the property in the near term, committing to those leases locks in that value. If it is vacant, there is the possibility that the right retailer will come along who will consider a \$30 or \$40 rent deal.

- “From an underwriting perspective, no one is counting on any income from the retail. The reality is that even if we include it in our pro forma, our capital partners don’t,” said one mixed-use developer.
- A retail broker said that developers must consider retail an amenity to the residents. If they need that portion of the project to pencil on its own, the rents are unlikely to support it.
- One developer said that his organization has done a few mixed-use projects in the metro area, both residential with commercial and office with retail. He said that they design projects for the market that is there. But often must deal with requirements from cities to put commercial space on the first level. “It’s better when the projects happen organically, and the market needs that product on day one. The neighborhood ends up with a better product type,” he said. He said it is better when the neighborhood and the city give the developer flexibility to build to market demand.
- One developer said that he would like to see flexibility around qualified uses for first floor space. For example, should a fitness center that primarily serves the residents qualify as an on-street use? Allowing those types of amenities in the space would help provide the vibrancy the cities and neighborhoods want while getting the space filled, he said.
- One developer said that poorly planned commercial space can be a headache that the developer must deal with long after the product is built. He said he has some space that the city required that he cannot lease. He said that he knew it would be a problem as they were working through approvals. “It’s a box with four walls with a lot of assumptions,” he said.
- One developer said that COVID-19 has exacerbated problems around leasing mixed-use

commercial spaces. “We were concerned about that space and that was pre-COVID,” he said.

- One retail broker said that mixed-use developments can be hard for retail. She said residents above complain about smells from restaurants and noises from trucks unloading. And, she said, developers typically know residential and do not understand retail. They fail to plan for appropriate HVAC and venting required for restaurants, not to mention appropriate parking.
- But retail can be a nice amenity for the residential, she said—as long as it is well planned and executed.
- A mixed-use developer said where there is limited commercial demand, they prefer to develop residential units on the street. He said they are working of space that could accommodate a blend of living space and working space—possibly arts studio or office space where residents could meet with clients. He said this product would do well in a post-COVID world where work is more flexible.

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

- Mitch Avery of Lund’s and Byerly’s said that they need the parking onsite and underground to drive the volumes they need to get from the store. To be able to afford the parking, they need the stories of residential above the store.
- One developer said that good design is key to getting around concerns about height. “Look, there is always consternation about height. As long as you are mindful of the human scale, you can get around it,” he said. “When you walk up to the location, if it’s well designed, you are not going to notice the height. You are going to notice the pedestrian experience.”
- A developer that has done multistory housing in the area said that the financials were just the reality. “The economics are based on what income you can get out of the property,” he said. The neighborhood residents were not happy about the density, but the developers would not have been able to do the deal without it.

- The height of the development is a direct function of the underground parking, one developer said. “The cost of the parking is the bogey,” he said. You need a certain level to support the underground parking construction cost. If you go any taller, you need to dig another level of underground parking, and that kills the deal too.
 - One developer said the number of stories needed for a mixed-use development project is all about the land prices. “You can’t pay these land prices and not go up,” he said. The high cost of land means density and verticality.
 - A developer said that these projects contribute to the tax base and should be approved. They are not asking for a subsidy to do the projects he works on, and the added value goes back to support municipal services.
 - One developer said commercial space at mixed-use developments often must achieve rents that are higher than the market to support the development. He said most new construction requires rents of \$30 to \$40 per square foot, whereas most space in the area rents for \$20 to \$30 per square foot. These gaps have been exacerbated during the pandemic. “Rent growth has backed off and now we are seeing a dip,” he said.
 - One community planner interviewed said that developers need to realize that there will always be pushback to density and need to be creative on how they deal with their plans. “It’s not how dense you are; it’s how you are dense,” he said. Look at setbacks that make the project feel smaller. Get creative on public space in front of the developments. Realize that there are ways to accommodate density yet maintain the overall feel of the street.
 - A community planner said that developers need to approach the neighborhood and ask, “How can I be a good neighbor?”
 - Developers also perceive the neighborhood to be antigrowth, one developer said. “It’s hard to do multifamily because the neighbors don’t want it,” he said.
 - Plus, the opportunity to sell density, walkability, and urban neighborhood drives up the price of the land, which makes it even harder to develop, he said.
 - One developer said he was surprised at the negative reaction to proposals from the neighborhood because he thought the first versions were reflective of what the community was looking for.
 - A developer who has experience in the area said that it is important to start conversations with the neighborhood association early in the process.
 - A developer said that the financial analysis becomes what is the least number of floors that need to be built to support the underground parking. He said that parking construction costs are about \$40,000 per parking stall. He said the parking amenity is important to support the market-rate rental units above and to not put additional parking pressure on the neighborhood.
 - One developer said that he has considered condominiums versus apartments but that the apartment rents supported the retail over the long term and that he preferred to own the entire building.
- Mixed-use projects with affordable housing could be an option for smaller scale projects, but the financing these projects can be difficult.***
- Scale is one of the main differences between affordable and market-rate mixed-use projects. An affordable housing developer said that because the low-income tax credits get spread out over more projects, the typical urban project is about 60 units. “The funding sources put a cap on how much can be developed,” he said.
 - The biggest issue for mixed-use affordable housing is the same for all affordable housing projects—many neighbors object to these projects near their homes. “Our biggest issue is the NIMBYism around affordable housing,” one developer said. NIMBY means “Not In My Back Yard.” Neighbors say they are fighting traffic and density, but they really would not want any affordable housing.

- When asked about Grand Avenue for affordable housing projects, an affordable developer said that it has what they look for—job opportunities, good schools, transit, walkable amenities. Obviously, these are the same factors that push real estate values higher for all property types. “But we look for urban areas like Grand Avenue because they push up scores to get funding approval through the state,” he said.
- A community planner said that the neighborhood needs to figure out how to include more affordable housing in the area. If it can use non-profit developers to spur retail space that supports small business, that might be the solution to some of the cost challenges.
- An affordable housing developer who does mixed-use projects said that the commercial space is not their primary concern. Their mission is affordable housing, and the commercial comes second. They develop commercial only if it makes sense for the organization. Mixed-use projects and risk and complexity. “We will only do it if it is necessary to make the project work,” he said.
- Affordable housing projects that have commercial spaces typically charge market rents, said a developer of affordable mixed-use projects. His organization has developed non-market space for non-profits that sever their overall mission of housing stabilization. But they have not done subsidized spaces for businesses. “That’s just not our mission,” he said.
- In urban areas, affordable mixed-use projects have underground parking, simply because there is not enough land available to do surface parking, according to an affordable housing developer. Projects with surface parking are easier to do financially, but areas can support those types of projects are not where the need is for affordable developments.
- An affordable housing developer said that market-rate units are often included for urban projects to support the additional cost of underground parking.
- Affordable mixed-use projects have less parking than market-rate projects. One affordable developer said that the ratio is often less than one parking stall per unit. Cities have allowed these reductions and the lower costs have helped to get the projects built.
- “Parking is the biggest drag on every project I’ve every worked on,” said one developer. When it costs between \$20,000 and \$40,000 to build a single parking stall, those costs must be offset by revenue somewhere else on the project.

Key Findings and Recommendations

Previous sections of this study compared the Grand Avenue Retail Node with four comparable retail nodes in Saint Paul and one in Minneapolis, discussed macro trends in retail that are impacting Grand Avenue and provided an estimated of retail space needs, outlined case studies of mixed-use projects in Saint Paul, and summarized the interviews that were conducted for this analysis.

This section summarizes key findings and recommendations.

Outlook for Retail Space on Grand Avenue

1. **LOCi Consulting forecasts retail space vacancy to increase between 2020 and 2025 on Grand Avenue.**

Based on our analysis of consumer spend, increases in e-commerce spending, and an overall increase in retail space supply in the Grand Avenue Trade Area, we project vacant retail space to increase by 13,000- to 75,000-square feet. That figure includes retail nodes across the Grand Avenue Trade Area, not just Grand Avenue. Based on the 90,000-square feet of vacant space currently in the Trade Area, this surplus would mean an increase of between 12% and 80% of vacant space in the Trade Area. (See Figure 27)

2. **Consumer spending is projected to grow, driving demand for retail space in key categories.**

The COVID-19 pandemic has clearly impacted the retail sector. Restaurants, apparel stores, electronics, and furniture stores have all seen significant sales declines year over year. However, according to the January release of the Advance Monthly Retail Trade Survey found overall retail sales were up 5.8% in January 2021 year over year, driven by growth in non-store sales (e-commerce), home improvement, grocery stores, and general merchandise stores. The two categories projected to

see the largest growth in consumer expenditure are grocery and restaurants.

3. **But e-commerce will make up a greater portion of consumer spending. E-commerce is estimated to be about 14% of retail spend but will likely grow to nearly 25% by 2025.**

E-commerce will temper demand for retail real estate space. As more retailers transition to “omnichannel” formats, consumer demands for e-commerce options will continue to grow. There will always be “Amazon-proof” businesses that will ensure that much of retail is still done in brick-and-mortar locations. And retailers will limit e-commerce options because the economics of e-commerce can be challenging—margins for goods sold online are generally lower. But consumers will continue to demand the convenience that these channels offer, and we believe growth will continue.

4. **And there is a good deal of retail square footage coming into the Grand Avenue Trade Area between 2020 and 2025.**

From the comparative node analysis, we identified about 90,000-square feet of existing vacant retail in the nodes analyzed. From the mixed-use case studies, we identified about 176,000-square feet of mixed-use retail that is planned or proposed in the Grand Avenue Trade Area over the five-year period. That figure includes only half of the proposed retail space at the *Highland Bridge* development because the expected buildout period is longer than five years.

5. **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,” was a common refrain heard through the interviews in this analysis. There is still fallout that is expected as stimulus funds run out and businesses close. Landlords are facing an uncertain future, trying to determine who 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. Adding to this sense of uncertainty is the civil unrest caused by the death of George Floyd at the hands of Minneapolis police and potential problems related to the trials.

Comparative Retail Node Analysis

6. Strengths of the Grand Avenue Retail Node include its strong brand, the unique historic homes and commercial buildings, and its legacy as the primary upscale commercial node in Saint Paul.

Grand Avenue has a well-known brand throughout the Twin Cities Metro Area. Metro residents know of the street and often associate the city of Saint Paul with Grand Avenue. The area around Grand Avenue is unique with historic homes and commercial buildings unlike other areas. With the mansions on Summit Avenue, the homes of Crocus Hill, and the eclectic mix of commercial buildings, visitors to the area get an experience that is rare in Twin Cities Metro Area. Grand Avenue has a legacy as an upscale retail area. Shoppers and business owners associate the area with a sense of upscale and charming.

7. Weaknesses of the Grand Avenue Retail Node include the fact that it stretches over several blocks east to west, the connectivity to the transportation network, and the presence of commercial structures that are becoming obsolete.

Grand Avenue is a long retail node. The distance from Dale Street to Hamline Avenue is 1.5 miles. This spacing means that it is not as walkable as the other comparable retail nodes. The Grand Avenue Retail Node is not well connected to the Metro Area's transportation infrastructure. Visitors to the area must know how to navigate to the node. For some businesses seeking to draw from a larger base of customer in the Metro Area, this can be a challenge. There are many commercial structures that are becoming obsolete. These buildings bring charm to the area, but from a retail operations perspective they can be challenging to work with in the modern retail business model.

8. Grand Avenue has a broad mix of restaurant and retail establishments.

The Grand Avenue Retail Node has diversity of retail mix compared with the other retail nodes. Including apparel and accessories, restaurants, specialty retail, and grocery and other convenience. In comparison, two of the nodes analyzed have developed a more specialized mix. The 50th-France Retail Node skews higher in apparel and accessories. The West Seventh-Grand Retail Node skews higher in restaurants and entertainment.

9. Using a drive-time analysis, the demographics for the Grand Avenue Trade Area are comparable to the nodes analyzed.

Drive-time analysis is often used by retail site selectors to determine if a site meets the criteria for selection. Using a 7-minute drive-time analysis, we find the demographics for the Grand Avenue Trade Area are comparable to the other four trade areas in Saint Paul. There is a perception that the demographics for the Grand Avenue Retail Node are strong compared to other areas of the city and that may be true using a very tight drive-time trade area. However, most brokers and retailers consider a larger trade area when making decisions about store and restaurant location. Population densities and incomes for the area are attractive, but not significantly better than other trade areas for comparable nodes.

10. The current vacancy rate from a national commercial real estate data service is 8.1%, but this estimate likely undercounts the actual vacancy.

The data from CoStar, a national commercial real estate data service, only counts space that is listed as available. On Grand Avenue, that count excludes space that is not being actively marketed or space that is vacant but still has term on the lease. The vacancy rate for the Grand Avenue Retail Node was second highest of the nodes reviewed. The 50th-France Retail Node had higher vacancies, but that is because they have new retail space that has come online.

11. The average retail real estate lease rate per square foot per year is \$32.88. This average is the highest among the nodes profiled.

That data, also from CoStar, is a blended rate that includes rent with costs included and those without costs (triple net).

Key Retail Trends for 2021 and Beyond

12. The coronavirus pandemic permanently changed the way consumers shop.

Buy online and pickup in-store (BOPIS) was already a major trend for retail headed into the pandemic, but COVID-19 put gasoline on the fire. To address safety concerns, retailers quickly developed curbside pickup, enhanced drive-through, delivery, and online ordering capabilities. And consumers responded and adopted these new methods of transaction. Now that the recovery has begun, consumers are showing no indication that they will return to their habits prior to the pandemic. Curbside pickup and delivery are here to stay.

13. Weak and struggling retail concepts will continue to disappear from the market.

Retailers who lacked cash, have heavy amounts of debt, or who were already suffering sales declines were forced into bankruptcy in 2020 to levels not seen in more than a decade. Some retailers that were able to stay afloat during 2020 because of rent concessions or stimulus payments will not make it through 2021. Bottom line, there will be fewer stores and retailers in 2022 than there were in 2021.

14. Large general merchandise players like Amazon, Target, Walmart, and Costco will build on gains they have made during the pandemic.

The big winners of 2020 were the large general merchandise retailers. These “one-stop shop” businesses benefited consumers by reducing the number of trips necessary to fulfill their needs. In addition, they all have sophisticated e-commerce platforms that allowed them to dominate local grocers, many of whom struggled to quickly develop online ordering, curbside, and delivery options.

15. Grocery and convenience retail will continue to be viewed as an essential anchor for retailers.

Community and neighborhood shopping centers with a grocery anchor did well in the pandemic and indoor shopping malls did terribly. Consumers are spending more of their discretionary and essential spending online, but grocery stores and other convenience retail has been able to maintain trips to their locations. Smaller retailers will look to position themselves near these convenience traffic drivers. And malls will continue to consider adding grocery stores as anchors.

16. Direct to consumer brands and online-only retailers will continue to look for traditional brick and mortar space to leverage their consumer relationship.

Continuing a trend that began before the pandemic, online-only retailers are seeking out brick and mortar locations to leverage their presence in a market. They have realized that an actual physical presence boosts online sales. Many of these retailers look to unique and interesting shopping districts, like Grand Avenue, 50th and France, and North Loop, to capture the attention of their target market. This trend may present an opportunity for Grand Avenue.

17. E-commerce will continue to grow but will experience growing pains.

With the dramatic acceleration of e-commerce in 2020 (see next section), the cracks began to show. Employee shortages at distribution centers, a taxed postal service, and technology glitches and crashes meant that consumers were often left feeling disappointed. And, because of the cost structures, online retail is often much less profitable than an instore transaction. Retailers know they must have e-commerce to be competitive, but the overall trend is driving down the bottom line.

18. Consumers will be financially stressed from the pandemic and that is bad for retailers.

Income and wealth disparities that were happening prior to the pandemic were exacerbated and become more entrenched. Millions of workers lost their jobs, and the economy has only just began to recover. With declines in incomes come declines in consumer

spending. Retailers who were able to find a large target market in middle income consumers are now finding that that market is shrinking.

19. Rapid changes in technology will mean even more dramatic changes to retail in the future.

The 5G revolution in mobile technology will generate new shopping experiences and new consumer products, changing the way that customers experience shopping. Maybe more important, it will reduce cost structures for retailers in their distribution and operations, possibly opening opportunities for new brick and mortar locations and touchpoints for customers.

Parking on Grand Avenue

20. Parking on Grand Avenue works well, generally, but changes in the way restaurants and retail conduct business will transform parking needs.

Interviews showed that stakeholders think that the blend of free on-street parking and off-street business-specific parking generally works for businesses. But as more businesses adopt curbside pickup, new drive through models, and delivery, the need for dedicated spaces serving these needs will increase. This trend will put stress on the existing parking infrastructure and ignoring these challenges will force retailers to look for new locations that can accommodate these services.

Small Businesses on Grand Avenue

21. Landlords like the diversity and creativity of small businesses and want them to succeed, but costs make it difficult for these businesses to compete with larger national businesses.

Interviews suggest that landlords want to attract and retain successful entrepreneurs to their buildings, whether they be large or small businesses. New retail concepts bring excitement and traffic to a shopping center, and those concepts are often created by small businesses. But often the costs are an impediment, especially to an area like Grand

Avenue that has higher rents and property taxes than other areas of the city. Brokers told us the rent drives the financial return of the building, so the landlord is simply looking for tenants who can pay that rent regardless of business size. For new developments, on the other hand, developers often need the credit of a national tenant to secure financing for the deal.

Mixed-Use Development on Grand Avenue

22. There were 10 completed mixed-use projects near Grand Avenue between 2015 and 2020. There are 14 projects under construction, planned, or proposed.

We reviewed neighborhood mixed-use projects (not in downtown) in Saint Paul between 2015 and 2020. Ten completed mixed-use projects were identified in neighborhoods near Grand Avenue. The total number of units is 1,279. Of those, it is estimated that about 350 are classified as affordable and the rest are market rate. Five projects are under construction, with a total of 964 residential units. Nine projects were identified that are proposed or planned, with a total of 1,445 residential units.

23. Mixed-use projects in the pipeline have been increasing size and scale.

The average project size for completed projects is 128 units. For projects under construction, planned, or proposed, the average project size is 185 units for projects under construction or planned—an increase of 48% over recently completed projects. The average number of units per acre for completed projects is 107. For projects under construction, planned, or proposed, the average number of units per acre for projects in the pipeline is 215 units per acre—an increase of 68% over recently completed projects

24. Land and construction costs drive the need for height and scale on mixed-use developments.

Developers interviewed through this analysis said that the primary construction cost driving the need for height is underground parking. Residential tenants expect underground parking in urban

developments, and cities concerned about on-street parking problems demand underground parking. Developers said that construction costs for underground parking range from \$20,000 to \$40,000 per stall and that income from parking fees do not cover those costs. Developers said that they need additional units and height to make the financials of the underground parking work. Even then, these financials have been challenging, resulting in many developers pushing for parking ratios below one parking stall per unit.

25. Cities often require first floor commercial space in multifamily developments, and this space can be difficult to lease.

Commercial space in mixed-use buildings is often required by the governing authority. In many cases, the market demand does not justify the space. As a result, these spaces are often afterthoughts in the development process, with little planning for how they will become viable spaces. Developers consider these spaces to be an amenity for the residential and income from the space is not considered in the underwriting process. Many of these spaces sit vacant because developers would rather hold out for a potential tenant that can pay the asking rent rather than lock into a lease below their requirement.

26. Successful commercial developments in mixed-use projects often start with an existing commercial tenant.

Mixed-use projects such as *The Vintage on Selby*, *The Finn*, and *Grand & Syndicate* all started with commitments from an existing tenant. The developer could then tailor the specifications of the project around the needs of that tenant, improving the way that the commercial and residential users coexist. When presented with projects like these, district councils and cities should prioritize these projects because they are more likely to be successful.

Recommendations

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

Because this requirement is not a realistic constraint, it communicates to developers that the neighborhood does not want mixed-use development. It reinforces a belief that the area is antigrowth. The long-term impact of this policy will be that development will occur elsewhere in the city, pushing retailers out and exacerbating the existing vacancy problems.

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

Instead of the overlay requirement, we recommend developing realistic design guidelines that reflect the neighborhood’s desire to maintain the qualities of Grand Avenue, while at the same time promoting the development of sustainable mixed-use space along the corridor. We recommend bringing together community members and developers to discuss what is desired and what is possible.

One developer interviewed brought up detailed design standards in a first-ring suburb as an example of where the neighborhood made its intention known and developers responded. He said it made discussions at community meetings much more positive as they talked about what they wanted rather than what they did not want.

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

Grocery stores had become a critical anchor for retail as e-commerce has grown in the past 25 years. And during the COVID-19 pandemic, grocery became even more important to the strength of a retail node. We recommend partnering with Lund’s and Byerly’s on their mixed-use proposal at the Avon Corner building. A new Lund’s and Byerly’s grocery store would serve as a critical retail anchor to the entire Grand Avenue Retail Node, driving a significant number of shopping trips and creating cross-shopping opportunities for retailers along the corridor.

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

This analysis finds the mixed-use projects that have an existing tenant for the commercial space are more likely to be successful. These projects create a vibrant streetscape that improve the overall retail in the area. We recommend partnering with the developers who proposed the mixed-use project at the Dixie's Restaurant site to get this project approved. Those initial plans included creating space for two existing restaurant concepts currently located on the site.

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.

Discussions around retail vibrancy should be ongoing. We recommend creating a standing working group to help promote potential development, identify users for vacant spaces, and work with small businesses to make sure their concerns are heard. This group should focus exclusively on the Grand Avenue district.

6. Establish a citywide "Future of Retail" working group that will promote and inform business needs in the post-COVID-19 environment.

Urban retail faces new challenges that suburban retail does not. Curbside pickup and delivery will tax the city's parking infrastructure in ways that will not happen in a traditional shopping district in a suburban setting. We recommend establishing a citywide working group to help develop proposals and policies to address these challenges. Consumers are demanding new ways to shop and cities and neighborhoods that fail to respond will lose retailers to areas that do.

The new retail environment creates opportunities for urban cities and neighborhoods as well. The new hybrid of retail and distribution means that centrally located real estate becomes more valuable, even locations that do not have the access and visibility of traditional retail. Ghost kitchens and mini-distribution centers could find a home in urban neighborhoods, bringing jobs and investment to these areas.

About LOCi Consulting LLC

LOCi Consulting LLC was founded by Grant Martin in 2019. The company is dedicated to the belief that location intelligence drives critical strategy for any organization.

Grant has over 15 years' experience conducting market research studies and providing critical recommendations for a wide range of real estate uses, including residential, retail, office/industrial, healthcare, and mixed use. He has presented meaningful and actionable recommendations to CEOs and CFOs, corporate real estate committees, city councils and economic development boards, and industry associations.

For over 10 years, Grant developed and led new store forecasting strategy, property portfolio optimization, and location-based analytics for Target Corporation. As Director of Regional Market Analysis, Grant and his team owned the geographic infrastructure and provided key data and market intelligence that continues to drive successful location strategy for the organization. Grant also managed regional market planning teams for Target, directing retail market research in a wide variety of markets across the United States and Canada.

Grant has completed over 60 market studies across the United States. Prior to coming to Target, Grant was Director of Market Research at Clifton Larson Allen, where he consulted with senior living and healthcare clients, estimating demand, and providing strategic recommendations. He also conducted a wide variety of research for real estate uses at Maxfield Research Inc., including studies for multifamily, single-family, office, industrial, hospitality and mixed-use projects.

Grant is a member of the International Council of Shopping Centers, where he is a member of the North American Research Group, the Minnesota Shopping Center Association, and the Minnesota Commercial Association of Realtors. He is a licensed real estate broker in Minnesota.