APPENDIX B

LOWRY AVENUE NE MARKET AND DEVELOPMENT ANALYSIS

Memo

To:	John Slack St. Paul, MN	From:	Jay Demma Paul Bilotta St. Paul, MN
File:	Lowry Corridor Market and Development Analysis	Date:	April 2, 2014

This memo presents market and land use information related to development opportunities at key intersections along the Lowry Avenue Corridor in Northeast Minneapolis.

The analysis provides a high-level understanding of the key market drivers impacting the Lowry Corridor and its ability to capture future development.

Data used in the analysis comes from several sources, including previous studies of the Corridor, the City of Minneapolis, Hennepin County, the U.S. Census, the Metropolitan Council, interviews with real estate professionals familiar with the Corridor, Claritas, a provider of demographic and market information, CoStar, a national database of commercial real estate information, and field work.

LOWRY CORRIDOR CONTEXT

The Lowry Corridor study area is approximately 2.5 miles north of downtown Minneapolis and 3.5 miles south of I-694. The Corridor is one of two primary east-west thoroughfares serving Northeast Minneapolis; the other being Broadway Street NE. On the west end of the Corridor, Lowry Avenue crosses the Mississippi River and connects Northeast Minneapolis to North Minneapolis. On the east end of the Corridor, Lowry Avenue becomes Kenzie Terrace at the St. Anthony Village border and eventually provides access to Roseville further east.

Industry attracted to the Mississippi River and the many railroads crossing Northeast Minneapolis initially drove development of the neighborhoods straddling the Lowry Corridor over 100 years ago. Therefore, much of the existing residential and commercial development consists of older, smaller properties originally designed to meet the needs of workers associated with nearby industry. Although industrial uses remain an important component of the local landscape, many of the residents and businesses found in the Corridor no longer have the same level of interdependence to those industries as they once did. Today, many residents and businesses of the Corridor are well connected to the broader regional economy.

As a matter of fact, after many decades of being characterized as a highly stable, though less affluent, community with low housing turnover and a strong sense of heritage, Northeast Minneapolis has begun to evolve rapidly in recent years with increasing levels of new investment and an influx of newcomers of all demographic and economic types. Much of this new attention to Northeast Minneapolis can be attributed to its stock of modest, but well-maintained housing, availability of older warehouses that can be easily adapted into a variety of new uses, and proximity to Downtown.

Due to the presence of several rail lines that cross Northeast Minneapolis, movement through this part of the City is often restricted to a small number of thoroughfares with railroad crossings at, above, or below grade. Lowry Avenue is one of these thoroughfares. As a result, it carries a significant amount of traffic. According to the most recent figures, daily traffic volumes along Lowry Avenue range from 14,000 vehicles at the

Mississippi River bridge to 9,000 vehicles in the vicinity of Central Avenue to 6,800 vehicles east of Johnson Street NE.

Although Lowry Avenue carries a significant level of traffic, the primary commercial corridor serving Northeast Minneapolis is Central Avenue. Nevertheless, Lowry Avenue has several key intersections in which commercial development has sprung up and evolved over the years. These can be found at Marshall Street, 2nd Street NE, University Avenue, Washington Street NE, Monroe Street NE, and Central Avenue.

GROWTH TRENDS

New development in the Lowry Corridor, by and large, will occur in response to increased demand from a growing population and household base. Table 1 provides an overview of the population and household growth trends from 1990 to 2030 for Northeast Minneapolis, the City of Minneapolis in its entirety, and the 7-County Twin Cities Metropolitan Area. The following are key findings from the table:

- As a fully developed community without significant tracts of vacant land, Northeast Minneapolis, like much of Minneapolis, has generally experienced modest rates of population and household growth relative to the broader region over recent decades. From 1990 to 2010, Northeast Minneapolis's population grew by less than 1% (296 persons) and its household base by just over 1% (185 households).

- Based on figures published by the Metropolitan Council, Stantec forecasts that Northeast Minneapolis as well as the entire city will grow significantly through 2030, which is in sharp contrast from recent decades. From 2010 to 2030, it is expected that the population and household base of Northeast will increase nearly 13% (4,836 persons and 2,187 households). Although this rate of growth will still not meet the metro-wide forecasted rate of growth, it represents a significant departure from recent trends which were marked by very slow growth or decline.

Table 1: Population and Household Growth Trends 1990-2030

	Population					Households				
Area	**1990**	**2000**	**2010**	**2020**	**2030**	**1990**	**2000**	**2010**	**2020**	**2030**
Northeast Minneapolis[1]	37,268	37,741	37,564	40,200	42,400	16,728	17,033	16,913	18,300	19,100
Minneapolis Total	368,383	382,618	382,578	420,000	455,000	160,682	162,352	163,540	178,900	194,400
7-County Metro Area	2,288,721	2,642,056	2,849,567	3,145,000	3,440,500	875,504	1,021,454	1,117,749	1,267,600	1,433,000
Numeric Change										
Northeast Minneapolis[1]	--	473	-177	2,636	2,200	--	305	-120	1,387	800
Minneapolis Total	--	14,235	-40	37,422	35,000	--	1,670	1,188	15,360	15,500
7-County Metro Area	--	353,335	207,511	295,433	295,500	--	145,950	96,295	149,851	165,400
Percentage Change										
Northeast Minneapolis[1]	--	1.3%	-0.5%	7.0%	5.5%	--	1.8%	-0.7%	8.2%	4.4%
Minneapolis Total	--	3.9%	0.0%	9.8%	8.3%	--	1.0%	0.7%	9.4%	8.7%
7-County Metro Area	--	15.4%	7.9%	10.4%	9.4%	--	16.7%	9.4%	13.4%	13.0%

[1] NE Minneapolis is defined as the following US Census tracts: 6.01, 6.03, 11, 17, 24, 1005, 1012, 1018, 1019, 1025, 1026, 1030, 1031, 1036

Sources: US Census, *American Community Survey*; Metropolitan Council; Stantec

- The forecasted growth for the Northeast Minneapolis is attributable to long range trends indicating increased demand for urban living fueled by closer proximity to amenities, services, and transit.

- Strong population and household growth will fuel demand for new housing and commercial development.

AGE DISTRIBUTION

Although overall population and household growth is probably the most important demographic indicator used to assess market demand, the age distribution of the population is also important because it provides insight into which age groups, and by extension their buying habits, will most impact future demand. Table 2 presents data on the age distribution of Northeast Minneapolis, the City of Minneapolis, and the 7-County Twin Cities Metropolitan Area. The following are key findings from the table:

- Between 2000 and 2012, Northeast Minneapolis experienced a sharp increase in the number and proportion of young children (under age 5) and especially young adults (age 25 to 34). This was counter to metro-wide trends in which these age groups either declined or grew much more slowly, thus indicating that these age groups are being disproportionately attracted to Northeast Minneapolis.

- Other age groups in Northeast Minneapolis that increased substantially between 2000 and 2012 were those age 55 to 59 and 60 to 64. Although the increase in the size of these age groups is important, it generally reflects a similar dynamic occurring metro-wide and thus is likely part of a natural demographic change and not necessarily indicative of anything unique to Northeast Minneapolis.

- Age groups that declined sharply or were a significant departure from the metr0-wide trend between 2000 and 2012 were school and college-age persons (those between age 5 and 24) and persons age 70 and over. The decline in the number of older adults is largely due to a limited amount of senior housing in Northeast Minneapolis. As older adults begin to face aging and/or health issues and can no longer continue to live independently in their existing homes, many need to relocate out of their immediate neighborhood in order access senior housing. This is somewhat exacerbated by the fact that many neighborhoods in Northeast Minneapolis consist largely of two-story homes, which are difficult to manage when climbing stairs becomes difficult or even dangerous. Nevertheless, as the older population leaves Northeast Minneapolis, it is apparent that it is being replaced by young adults both with and without young children. This will have profound impacts on the future need for housing, schools, parks, and commercial space.

- It should be noted that questions arose during the course of this research as to whether “southern” portions of Northeast Minneapolis (i.e., the neighborhoods south of Broadway St NE and north of East Hennepin Ave) were being disproportionately affected by growth among college-age persons (i.e., age 18-24) due to proximity to the University of Minnesota. As a result, additional research was conducted focusing on any potential demographic differences between the “northern” portions of Northeast Minneapolis (i.e., neighborhoods north of Broadway St NE) and the “southern” portions of Northeast Minneapolis. Based on a review of the data, there is no appreciable difference in the number of college-age persons between the two areas.

Table 2: Age Distribution of the Population 2000 and 2012

	Northeast Minneapolis				7-County Metro Area				Distribution			
			Change				Change		NE Mpls		Metro Area	
Age Group	2000	2012	No.	Pct.	2000	2012	No.	Pct.	2000	2012	2000	2012
Under 5 years	2,280	2,764	484	21.2%	188,236	197,613	9,377	5.0%	6.0%	7.2%	7.1%	6.8%
5 to 9 years	2,108	1,846	-262	-12.4%	198,690	197,460	-1,230	-0.6%	5.6%	4.8%	7.5%	6.8%
10 to 14 years	1,935	1,172	-763	-39.4%	197,611	196,274	-1,337	-0.7%	5.1%	3.1%	7.5%	6.7%
15 to 19 years	1,962	1,578	-384	-19.6%	183,491	198,035	14,544	7.9%	5.2%	4.1%	6.9%	6.8%
20 to 24 years	3,058	2,613	-445	-14.6%	173,732	192,947	19,215	11.1%	8.1%	6.8%	6.6%	6.6%
25 to 29 years	3,886	4,667	781	20.1%	196,455	225,071	28,616	14.6%	10.3%	12.2%	7.4%	7.7%
30 to 34 years	3,623	4,303	680	18.8%	214,700	205,726	-8,974	-4.2%	9.6%	11.2%	8.1%	7.1%
35 to 39 years	3,462	3,305	-157	-4.5%	239,341	192,581	-46,760	-19.5%	9.2%	8.6%	9.1%	6.6%
40 to 44 years	3,123	2,628	-495	-15.9%	229,983	208,132	-21,851	-9.5%	8.3%	6.9%	8.7%	7.2%
45 to 49 years	2,759	2,603	-156	-5.7%	198,735	225,605	26,870	13.5%	7.3%	6.8%	7.5%	7.8%
50 to 54 years	2,079	2,541	462	22.2%	164,857	220,029	55,172	33.5%	5.5%	6.6%	6.2%	7.6%
55 to 59 years	1,494	2,429	935	62.6%	117,051	185,377	68,326	58.4%	4.0%	6.3%	4.4%	6.4%
60 to 64 years	1,178	1,954	776	65.9%	83,929	147,918	63,989	76.2%	3.1%	5.1%	3.2%	5.1%
65 to 69 years	1,035	1,228	193	18.6%	68,266	98,717	30,451	44.6%	2.7%	3.2%	2.6%	3.4%
70 to 74 years	1,023	679	-344	-33.6%	62,349	70,256	7,907	12.7%	2.7%	1.8%	2.4%	2.4%
75 to 79 years	1,123	742	-381	-33.9%	53,309	56,007	2,698	5.1%	3.0%	1.9%	2.0%	1.9%
80 to 84 years	851	553	-298	-35.0%	36,983	44,689	7,706	20.8%	2.3%	1.4%	1.4%	1.5%
85 years+	762	721	-41	-5.4%	34,338	46,564	12,226	35.6%	2.0%	1.9%	1.3%	1.6%
Total	37,741	38,326	585	1.6%	2,642,056	2,909,001	266,945	10.1%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Census

= Significant in-migration or retention of age group relative to Metro Area

= Significant out-migration or failure to retain age group relative to Metro Area

INCOME

Table 3 and Figure 1 present the median household income by age group for Northeast Minneapolis and the 7-County Twin Cities Metropolitan Area for 2000 and 2012. Income is an important demographic to analyze because it indicates the level of affluence in a community and its ability to support new residential and commercial development through it purchasing power. The following are key findings from the table:

- The overall median income for the 7-County Metro Area is well above that of Northeast Minneapolis, which is generally reflective of Northeast Minneapolis's older, smaller housing stock and its mostly older population as of 2000. However, the gap closed substantially between 2000 and 2012 in which the ratio of the two medians went from 0.7 in 2000 to 0.76 in 2012.

- The younger age groups, those under age 25 and those age 25 to 44, experienced a sharp rise incomes relative to the metro area from 2000 to 2012. In particular, the youngest householders, which already had the highest relative incomes among all of the Northeast age groups, observed an increase in its median income going from a ratio of 0.99 in 2000 to 1.26 in 2012. Although households under age 25 generally have the lowest incomes of any age group, this represents an important trend that if it persists will have profound impacts on the spending power of Northeast households.

- The 25 to 44 age group also observed a sharp increase in median income increasing its metro ratio from 0.74 to 0.86. Although still below the metro area median for the same age group, it signifies that the younger households, which are moving into Northeast Minneapolis in greater numbers, are also bringing more income and potential spending power.

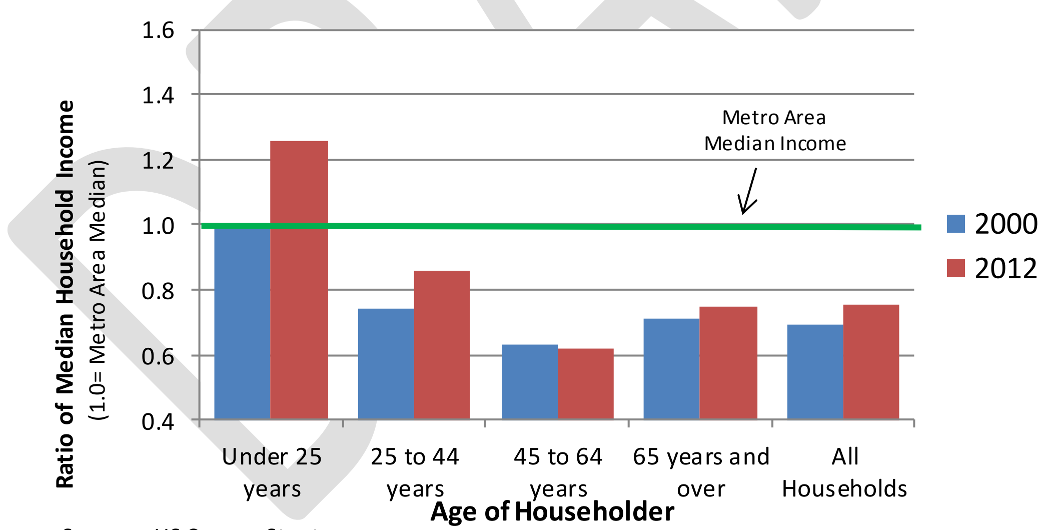
- Also, as seniors are replaced by younger households, they are often being replaced by those earning 30-100% more in income.

Table 3: Median Household Income by Age of Householder 2000 and 2011

	2000			2012		
Age of Householder	**NE Mpls**	**Metro Area**	**Ratio**	**NE Mpls**	**Metro Area**	**Ratio**
Under 25 years	$29,466	$29,817	0.99	$39,613	$31,491	1.26
25 to 44 years	$43,397	$58,616	0.74	$61,800	$71,857	0.86
45 to 64 years	$42,779	$67,861	0.63	$50,396	$81,464	0.62
65 years and over	$22,220	$31,233	0.71	$30,838	$41,301	0.75
All Households	$38,129	$54,807	0.70	$50,621	$66,896	0.76

Source: U.S. Census, *American Community Survey;* Stantec

Figure 1: Ratio of NE Minneapolis Incomes to Metro Area Incomes by Age for 2000 and 2012



Sources: US Census; Stantec

RECENT DEVELOPMENT TRENDS

Table 4 shows the amount of new housing units and commercial/institutional space that has been developed or is currently in development in Northeast Minneapolis since 2003. There have been 13 residential developments with a combined total of 572 units or an annual average of roughly 50 units per year. Significant residential developments include the Bottineau Commons apartments, River Village, Central Avenue Lofts, Monroe Village, and Washington Court.

There also has been a total of six commercial/institutional developments totaling about 47,000 square feet of space, which is an annual average rate of about 3,900 square feet.

Table 4: Northeast Minneapolis Development Projects 2003-Present

Year	Housing Units	Commercial/ Institutional Space
2003	66	0
2004	277	6,300
2005	0	0
2006	0	0
2007	104	15,000
2008	0	0
2009	33	0
2010	62	0
2011	0	3,750
2012	0	9,935
2013	0	0
Pre-Development	30	11,680
Total Units/Sq Ft	572	46,665
Annual Average	*48*	*3,889*

Source: City of Minneapolis

HOUSING

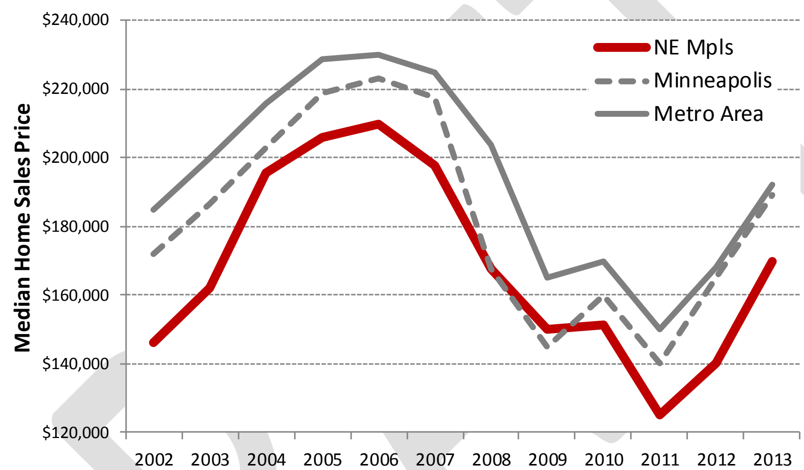
FOR-SALE MARKET

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

By 2007 and especially 2008, it became evident, however, that overheated demand had resulted in a housing bubble that once it crashed caused declines in housing values not seen since the Great Depression 80 years earlier. Prices in many markets, including portions of the Twin Cities, saw declines as sharp as 50% or more. In Northeast Minneapolis, median home sales prices peaked at $210,000 in 2006 before falling to $125,000 by 2011, a 40% decline (Figure 2). However, **since 2011 the median sales price in Northeast Minneapolis has rebounded nearly $45,000** and is now less than 20% below its market peak.

Pricing trends in Northeast Minneapolis have generally mirrored those of the Metro Area and the City of Minneapolis. However, regardless of price fluctuations in recent years, the median price in Northeast Minneapolis tends to be 10-15% below that of the Metro Area and the City of Minneapolis. It should be noted, though, that the median sales price for the City of Minneapolis is nearing a crossover point with the Metro Area median, which indicates growing interest and demand for housing in urban locations and would include many parts of Northeast Minneapolis.

Figure 2: Housing Price Trends 2002 to 2013



Source: Minneapolis Area Association of Realtors

Figure 3 provides additional detail of the for-sale housing market for each of the five neighborhoods straddling the Lowry Corridor. The following are key findings from the figure:

- Generally speaking, neighborhoods closest to the Mississippi River have significantly fewer for-sale properties and thus far fewer sales in 2013 than those further from the river. Despite a smaller stock of for-sale properties, these neighborhoods experienced stronger price trends between 2006 and 2013.

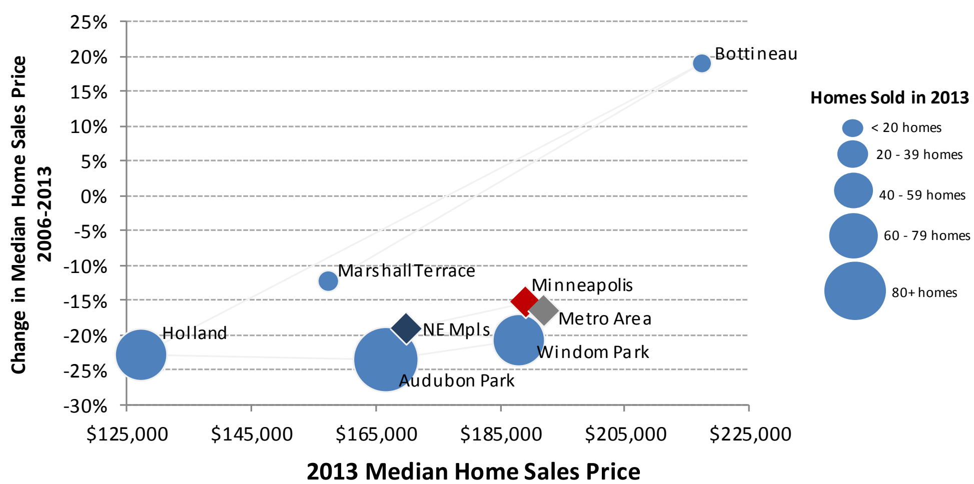
- The Bottineau neighborhood had by far the highest median sales price of the five neighborhoods in 2013 and is the only neighborhood to experience price appreciation between 2006 and 2013. However, due to the small number of sales, the median sales price is susceptible to large fluctuations from year-to-year.

- The Holland neighborhood had the lowest median sales price among the five neighborhoods, which is likely due to a very large supply of older, smaller for-sale properties.

- Audubon Park had the most sales in 2013 of the five neighborhoods but also experienced the largest percentage decline in median sales price from 2006 to 2013.

- Windom Park had a 2013 median sales price closest to that of Minneapolis and the Metro Area. It also has experienced pricing trends between 2006 and 2013 most similar to that of Minneapolis and the Metro Area as well.

Figure 3: Housing Price Trends Lowry Corridor Neighborhoods 2006-2013



Source: Stantec; Minneapolis Area Association of Realtors, Multiple Listing Service

There are strong indicators that the for-sale market is beginning to revitalize, which is good news. However, pricing still remains well below its peak in 2006 for most neighborhoods in Northeast Minneapolis and, thus, is still too low to justify a new condominium or townhome development along the Lowry Corridor in the short-term unless there is significant public subsidy. Beyond the short term, the prospect for new condominium or townhome development in the Lowry Corridor is much more promising as new household growth and rising incomes will fuel demand for all types of products.

Demand for single-family housing will likely also increase. However, the costs associated with acquiring enough land to accommodate any sizable number of single-family lots are likely too high as it would require significant displacement of existing businesses and/or homes through large-scale demolition. With that being said, individual lots acquired by the City of Minneapolis through tax forfeiture or other means have been reselling rapidly as of late and often at above-market prices. This is a strong indication of the strengthening of the housing market in Northeast Minneapolis. Furthermore, the attractiveness of the buildable lots is fueled by the fact that the existing housing stock is older, smaller and lacks many of the amenities found in newer homes.

Once the market for for-sale housing fully rebounds, the primary challenge for developing new condominium or townhome product in the Corridor will be identifying key sites that are close to neighborhood amenities (e.g., water views, open space, retail, restaurants, etc.). In other words, owned multifamily housing, unlike detached single-family housing, is highly sensitive to the quality of a given site and the surrounding neighborhood. Making the commitment to purchase a home in a highly dense environment requires significant tradeoffs in which the quality of the surrounding neighborhood needs to make up for the lack of private living space.

In all likelihood, this means the condominium/townhome market will gravitate toward either the Mississippi River, where views and/or river access becomes the key feature, or toward Central Avenue where the availability of shops, restaurants, and transit will drive demand. If the availability of developable land is sufficiently constrained in these areas, only then will sites further away from the River or Central Avenue be strongly considered unless influenced with subsidy.

Another key consideration for development of condominiums in particular will be finding sites large enough to accommodate structured parking. Although trends indicate that rental product located close to numerous transit options can support fewer parking spaces per unit, ownership product outside the downtown cores will still be heavily influenced by the availability of safe, secure, and highly convenient parking.

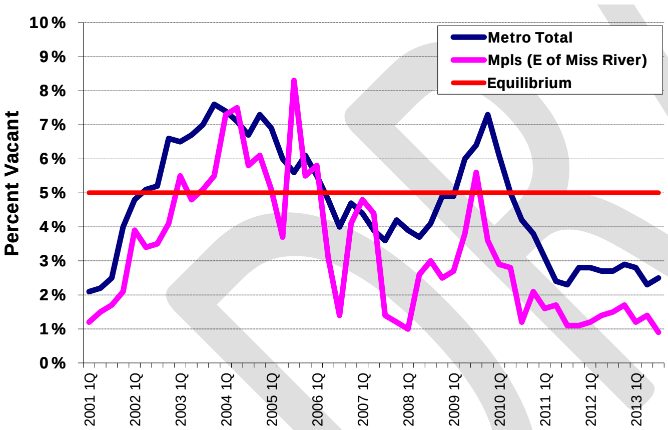
RENTAL MARKET

The apartment market has rebounded strongly after a period of high unemployment and lackluster job growth temporarily softened the rental market in 2009 (Figure 4).

The overall vacancy rate in Minneapolis east of the Mississippi River dropped from a peak of 5.6% in 3rd quarter 2009 to under 1.0% as of 3rd quarter 2013. This strengthening in the market means that the vacancy rate is now well below 5.0%, indicating **strong pent-up demand** in the market.

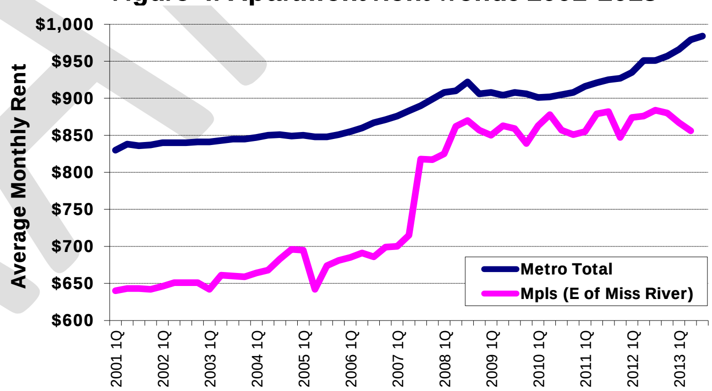
The average monthly rent in Minneapolis east of the Mississippi River is currently at $883 per month, which is a 25% increase since 2007, which was before the recession (Figure 5). Typically, declines in vacancy precede increases in rent. Once rents increase enough, this will place pressure on the market to develop new rental housing although they are still likely to low to support a large amount of new construction without subsidy.

Figure 5: Apartment Vacancy Trends 2001-2013



Source: Marquette Advisors, Apartment Trends

Figure 4: Apartment Rent Trends 2001-2013



Source: Marquette Advisors, Apartment Trends

It should be noted evidence appears to be growing that younger age groups are not embracing homeownership the way previous generations did. First, mortgage standards have returned to more stringent levels where the barrier to entry is much higher due to substantially larger down payments that are required on the part of banks. Second, with housing no longer appreciating at even modest levels, the nest egg that so many previous generations created through homeownership is no longer seen as attainable or at least a riskier investment. Third, for younger households vulnerable to high unemployment rates, homeownership can be viewed as reducing mobility which reduces employment flexibility which further depresses demand. As a result, younger households are starting to choose rental housing as a preferred arrangement rather than a temporary situation prior to homeownership. This rental by choice or lifestyle market is often seeking higher rent and amenity properties than were standard even a few year ago.

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

It should be noted, though, that there is a substantial amount of pending apartment development throughout the Twin Cities metro area. To some degree, we believe the level of pending development in Northeast Minneapolis, especially north of Broadway Street NE, still leaves room for additional development along the Lowry Corridor because most of the region's pending development is focused on downtown Minneapolis, the neighborhoods surrounding the University of Minnesota, and the Uptown neighborhood. Nonetheless, pending development throughout the Twin Cities should be closely monitored as market saturation, even at the submarket level, will have implications for other submarkets, especially with respect to access of non-local financing.

With respect to the demand for affordable rental housing in Northeast Minneapolis and the Lowry Corridor, our calculations reveal a very deep level of pent-up demand. Although affordable rental housing is commonly in high demand even when market rate demand is soft, we believe that Northeast Minneapolis is well positioned for affordable types of housing given its transit advantages and access to retail and other services.

HOUSING DEMAND

Provided sufficient land is available for new development, Northeast Minneapolis is expected to add about 2,200 new households through 2030 (i.e., 110 per year on average). Given recent construction trends, demographic changes, and consumer preferences, the vast majority of this new household growth or at least 80% of which (1,800 households) will opt for some type of multifamily housing product (e.g., condominiums, townhomes, apartments, senior housing, etc.). Obviously, the Lowry Corridor will only be able to capture a small percentage of that total as Northeast Minneapolis covers many square miles. Nevertheless, the overall growth pressures affecting Northeast Minneapolis will translate into demand pressure in the Lowry Corridor as well, especially if the Corridor is able to evolve into a new amenity-rich neighborhood with increased availability to transit, shops, restaurants, and recreational opportunities.

This estimate of demand is driven mostly by the idea that household growth is a proxy for new housing demand. In some instances, however, such as senior housing, demand exists despite the lack of new household growth because of the need for new product types not currently in the marketplace. Furthermore, achievable market pricing will drive many of the development possibilities for housing in the Corridor. Proximity to and views of the Mississippi River, for example, will help support higher pricing for housing in some sections of the Corridor. Other segments of the Corridor, however, will likely require some sort of public assistance to support new residential development as achievable rents/prices may not be high enough to cover the costs of development (i.e., site acquisition, site clean-up, construction, etc.).

This growth pressure will set the stage to support new development in the Lowry Corridor. However, short-term trends will dictate what types of new housing will likely be demanded over the next one to five years versus the demand pressures that will exert themselves over the long-term (more than five years from now). For example, there are some broader trends that are occurring which may have an impact on the Lowry Corridor. Nationally, demand for market rate rental housing is growing rapidly. Although reasons for this are varied, primary drivers include higher qualifying standards for mortgages, loss of faith in homeownership, higher gasoline prices, and modest employment increases.

Historically, market rate rental apartments can be broken down into two major sub-markets: young professionals and empty-nesters/early retirees who want to downsize into maintenance-free housing. Young professionals typically want to live in an amenity-rich location that is close to where they work. Northeast Minneapolis is amenity-rich and becoming increasing so. Furthermore, it is proximate to the kinds of large employers (i.e., downtown Minneapolis) that attract young professionals. Empty-nesters and early retirees often still work, especially in this day and age, and also prefer locations that are convenient to major employment centers.

RETAIL

VACANCY AND PRICING TRENDS

Stantec analyzed trend data on the retail vacancy and lease rates for Northeast Minneapolis and compared those against the rates for all retail properties throughout the Metro Area (Figures 6 and 7). The following are key findings from the figures:

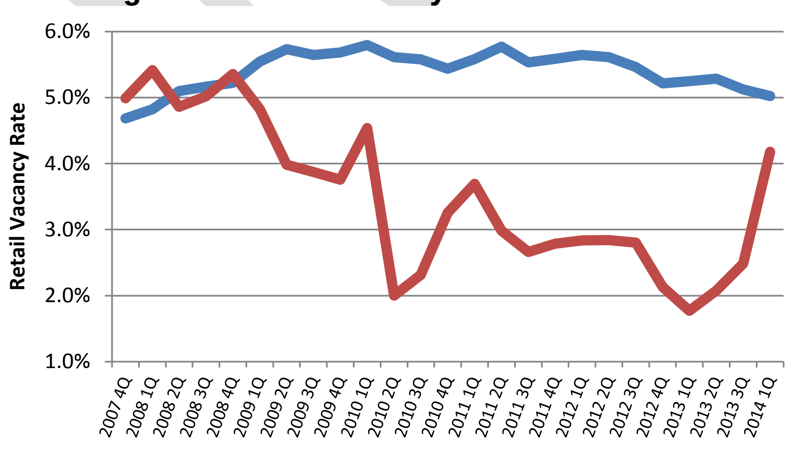
- Since 2008, the average vacancy rate for retail space in Northeast Minneapolis has been well below that of the Metro Area. However, the rate increased sharply toward the end of 2013 and is too soon to tell if it marks a negative trend or is a short-term condition related to sizable property.

- In early 2013, the average vacancy rate in Northeast Minneapolis hit a low of just under 2.0%, which indicates a very tight supply of available retail space and likely suggests that some prospective tenants interested in locating or expanding in Northeast Minneapolis are unable to do so.

- Quoted lease rates for retail space in Northeast Minneapolis are currently at about $14 per square foot, which is very similar to the Metro-wide average quoted lease rate.

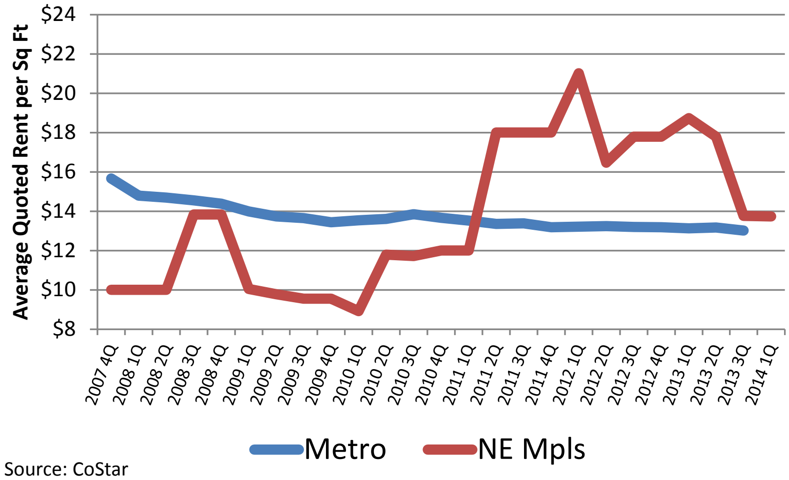
- Between 2010 and 2013, average quoted lease rates in Northeast Minneapolis spiked above the Metro-wide average and hit a peak of over $21 per square foot. Given that the vast majority of retail space in Northeast Minneapolis in located in older, smaller commercial buildings, this is additional evidence of a very tight market in which limited supply with strong demand has pushed up rents.

Figure 6: Retail Vacancy Trends 2007-2014



Source: CoStar

Figure 7: Average Quoted Retail Lease Rates 2007-2014



Source: CoStar

INTERVIEWS WITH REAL ESTATE PROFESSIONALS

Stantec interviewed several real estate professionals familiar with Northeast Minneapolis and the Lowry Corridor to get their perspectives on the overall retail market and the potential for new development. The following are key highlights from the interviews:

- The market is currently very tight right now with very little excess space, especially for larger spaces (i.e., those larger than 5,000 square feet)

- Although quoted retail rents have reached as high as $21 per square foot, most deals are currently being done for between $12 and $15 per square foot

- Except for a couple exceptions, national chains tend to overlook the Central and Lowry Avenue corridors because the available spaces tend to be small, located in older buildings, and do not have enough parking to meet their basic criteria

- Because national chains tend to overlook Northeast Minneapolis, much of the demand for retail space is driven by mom and pop businesses, many with an ethnic or immigrant target market, which is quite strong

- Although national chain retailers are currently not paying much attention to Northeast Minneapolis, there is evidence of significant outside investment coming into Northeast Minneapolis in which investors are purchasing prominent properties in anticipation of strong growth trends and a palpable energy to the community

- Most of the activity and interest in Northeast Minneapolis for retail space is centered along Central Avenue between 18th Avenue NE and 27th Avenue NE with the intersection at Lowry Avenue being the 100% corner

- The potential for new commercial development in Northeast Minneapolis, and particularly along the Lowry Corridor, is heavily constrained by small shallow lots, very narrow sidewalks, and limited possibilities for parking

- Any new development in the Lowry Corridor will likely occur through adaptive reuse and rehabilitation as opposed to new construction because of the challenges associated with new construction and because commercial rents are still below what can support new construction

RETAIL SUPPLY

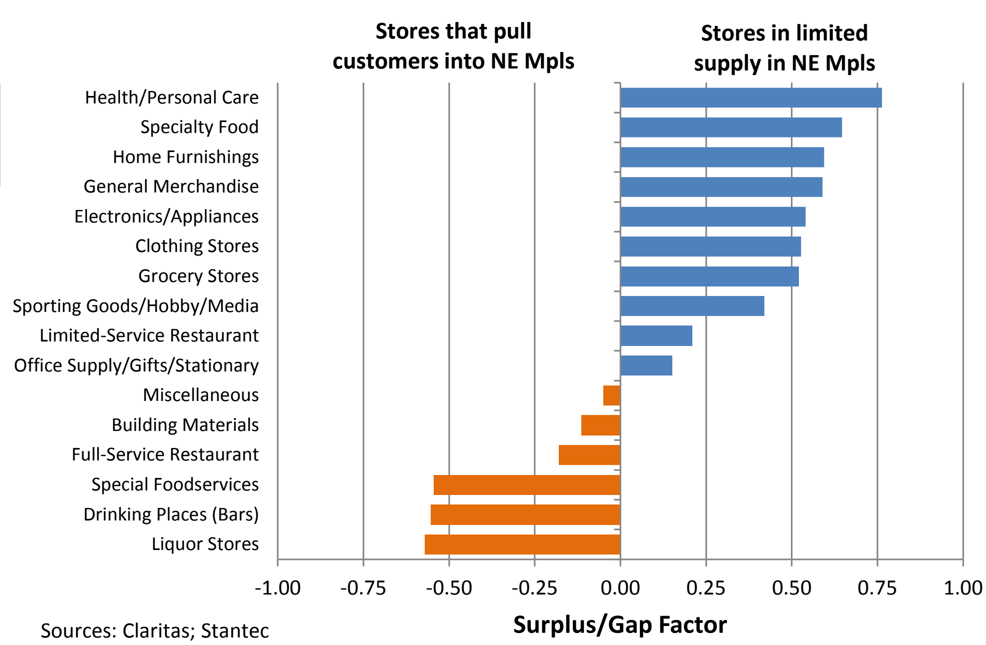
In all likelihood, Central Avenue will remain the primary commercial corridor and the Quarry the primary commercial center serving the many neighborhoods of Northeast Minneapolis, and the Lowry Corridor will continue to serve a secondary role providing more affordable commercial space for businesses not as dependent on the highest traffic volumes. Nevertheless, as Central Avenue evolves and becomes less able to accommodate growing demand, the Lowry Corridor may be in a position to capture certain types of growing demand.

In order to gain a better understanding of which types of retail categories may be placing the greatest pressure for space in Northeast Minneapolis, Stantec conducted an analysis of local demand vis-à-vis local supply to see which categories may present opportunities for growth.

Figure 8 summarize results of the analysis and reveals which retail categories fail to meet local demand and thus may be in a position to capture more local market share versus those categories which exceed local demand and therefore are pulling in customers from beyond Northeast Minneapolis (e.g., fine dining restaurants often pull customers from throughout the metro area).

Like the demographic data presented previously, please note that Northeast Minneapolis is defined as the neighborhoods north of East Hennepin Avenue and east of the Mississippi River. It would include the retail districts of Central Avenue and the Quarry. It does not include retail districts located just beyond Northeast Minneapolis, such as downtown, the area around Kenzie Terrace and New Brighton Blvd, Silver Lake Village, or the retail along Central Avenue in Columbia Heights.

Figure 8: Northeast Minneapolis Retail Supply and Demand Analysis



Sources: Claritas; Stantec

The figure reveals that food and liquor establishments are in high supply within Northeast Minneapolis and likely draw significant numbers of visitors from outside of the area. This is not surprising given that Northeast Minneapolis has a growing population of persons age 25 to 44. This demographic group tends to support food and liquor establishments at much higher rates than other age groups. Therefore, many nightlife and entertainment districts often emerge to serve this demographic group, which in turn attracts visitors from outside the area.

Conversely, despite the presence of the Quarry, many traditional retail stores that are typically found at shopping centers and malls are underrepresented in Northeast Minneapolis relative to its population. Therefore, many Northeast Minneapolis residents have to travel outside of the area to access such goods and services.

It should be noted that many of the retail stores that gravitate to traditional shopping centers and malls have a business model that depends on serving a very large trade area, in many cases much larger than Northeast Minneapolis. Therefore, the locations needed to support such large trade areas require locations at the intersection of major highways and freeways. Other than the Quarry, most locations within Northeast Minneapolis, and along the Lowry Corridor in particular, do not have the kind of regional roadway access that supports this model. Instead, retail in Northeast Minneapolis is either focused on the needs of the immediate neighborhood or has a specialty niche (e.g., nightlife) that is anchored by supportive demographics but which draws people from a broad area.

Based on the supply analysis, opportunities for new retail stores in which the business model may fit well with smaller, scale urban development patterns include shoe stores, drug stores, specialty apparel, specialty sporting goods, hobby/craft stores, and grocery stores. Because traditional grocery stores require very large footprints, which generally can't be found or easily accommodated in most areas of Northeast Minneapolis, we would suggest that specialty grocery concepts would be more appropriate. These would include cooperative grocery stores, healthfood stores, and ethnic markets. There also is a substantial gap among general merchandise stores. Much of this market gets captured by Wal-Mart and other large-scale operations. However, dollar stores have been refining their concept as of late and often work well in more urban envirnonments.

RETAIL DEMAND

Future retail demand in Northeast Minneapolis and the Lowry Corridor in particular will be driven by two key factors: 1) growth in the local household base; and 2) the level of amenity or "placemaking" that can be introduced at key locations that will help draw in visitors from beyond the immediate neighborhoods. Because the Lowry Corridor does not have the traffic volumes, access to major highways, and space to accommodate large-scale retail centers, it is unlikely that it will be able to support a significant amount of new large-scale retail space. However, there is opportunity to capture some retail demand due to the Corridor's potential for locational amenities and a growing market base within Northeast Minneapolis.

As Northeast Minneapolis grows in size due to more residents and workers, there will be additional demand among these "localized" markets to prefer retail options that are more convenient to what currently exists. Therefore, as the Lowry Corridor transforms into an improved thoroughfare, key locations where traffic and visibility will be highest may be preserved for retail development. The amount of demand from this group, however, will be commensurate with the amount of growth in the market. A rule of thumb is that a typical household will support about 75 square feet of retail space at suburban densities. In a more urban environment, it is closer to 50 square feet due to higher land prices and the pressure to maximize the use of space. Recognizing that some of the dollars Northeast Minneapolis households spend goes to retailers located in traditional shopping centers and malls not found in the immediate area, the measure of 50 square feet per household could likely be scaled down closer to 35 square feet per household.

Applying the rule of thumb from above to the forecasted household growth figures for Northeast Minneapolis presented previously yields a potential demand for about 4,000 square feet of additional retail space per year over the next 20 years, which is consistent with what has been occurring over the last 10 years. Of course, not all of this potential Northeast Minneapolis retail demand will be captured along the Lowry Corridor. However, it indicates how growth in the local household base will continue to translate to demand for additional retail space in the area.

There also is a potential non-"localized" market for retail options as well, particularly restaurants and specialty retailers who thrive off of discretionary spending motivated by an experience (e.g., art galleries, gifts, etc.). This is clearly an important component to the Northeast Minneapolis market and will continue to be. However, this market is predicated on having a place that people want to experience that is connected to unique features that can't be found everywhere, such as waterfronts, historic structures, attractive public spaces, or man-made attractions, such as the currently proposed Ferris wheel. Such retail areas need to be distinct from other competitive retail districts so they can pull people from throughout the region.

The amount of non-"localized" retail demand is more challenging to quantify as it is strongly attached to quality of the experience. Nevertheless, it is important to be aware of how important this component is to the local market and how will likely continue to greatly influence the potential for new development throughout Northeast Minneapolis and particularly along the Lowry Corridor. Expanding the experiential retail opportunities requires an attention to detail and place making that enable Northeast Minneapolis to compete with other parts of the Metro Area also targeting this market. With the Mississippi River and historic neighborhoods, the Lowry Corridor has traits that can be built upon that other areas cannot replicate.

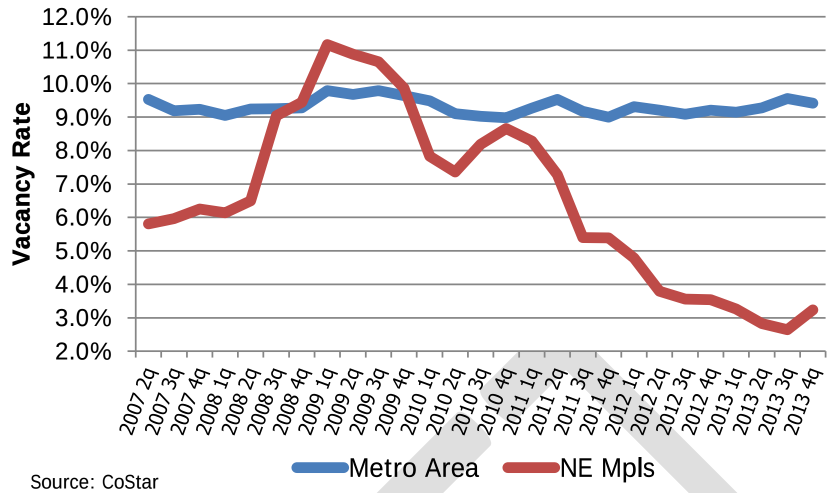
OFFICE

VACANCY AND PRICING TRENDS

Stantec analyzed trend data on the office vacancy and lease rates for Northeast Minneapolis and compared those against the rates for all office properties throughout the Metro Area (Figures 9 and 10). The following are key findings:

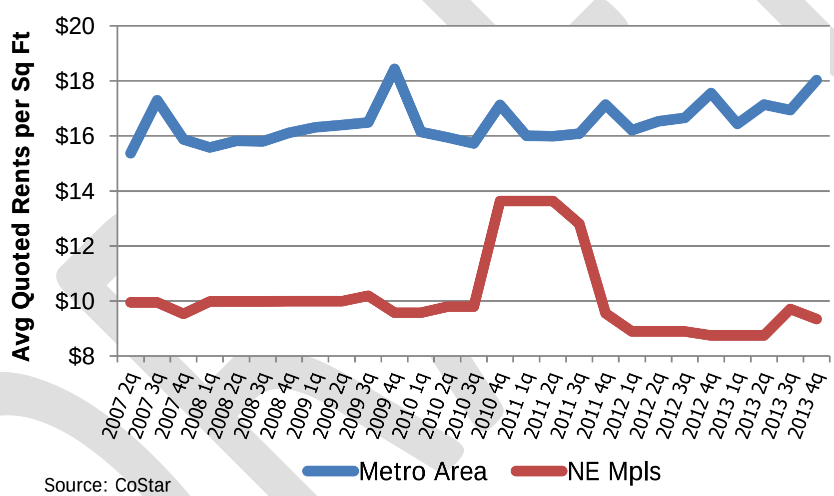
- In 2010 the average vacancy rate for office space in Northeast Minneapolis fell below that of the Metro Area and has since dropped to a rate well below that of the Metro Area.
- In 2013, the average vacancy rate in Northeast Minneapolis hit a low of just under 3.0%, which indicates a very tight supply of available office space and likely suggests that some prospective tenants interested in locating or expanding in Northeast Minneapolis are unable to do so.
- Quoted lease rates for office space in Northeast Minneapolis are currently at about $9 per square foot, which is about half the rate of the Metro-wide average quoted lease rate ($18/sf).

Figure 9: Office Vacancy Trends 2007-2013



Source: CoStar

Figure 10: Average Quoted Office Lease Rates 2007-2013



Source: CoStar

The significantly lower office rents in Northeast Minneapolis are due to a number of factors:

1. Northeast Minneapolis is not a major office district. The overall supply of office space in Northeast Minneapolis only accounts for about 0.3% of the total metro area office market.

2. Office space in Northeast Minneapolis is primarily driven by professional and health care service firms that cater to the neighborhood market (e.g., accountants, attorneys, tax preparers, chiropractors, etc.) and typically do not need large amounts of space or high end finishes.

3. The supply of office space consists of smaller, older properties that lack the kinds of amenities that support higher rents (Class C). There is generally a significant discount for Class C office spaces.

4. Office markets are heavily influenced by transportation access, neighborhood amenity, and being close to other office users. Therefore, major office districts tend to emerge where these things are

present. This generally limits them to downtowns and key highway interchanges with shopping centers and park areas nearby.

OFFICE DEMAND

As the household base in Northeast Minneapolis grows, there will be a commensurate growth in the demand for office space filled by professional service firms serving these populations. However, the total amount of additional space needed will be nominal. With that being said, though, these types of office users often locate into marginal retail areas because they have attractive visibility but lower rents than traditional retail. Therefore, some of the intersections along Lowry with lower traffic volumes could be candidates for small-scale office. The demand will not be for new office space as this would be too expensive of space for this market. It would come in the form of rehabilitation of existing commercial space. As a matter of fact, small professional service firms often start the revitalization process in many commercial areas because these businesses are typically locally owned and rooted in the community.

As for the demand among large-scale office users, in all likelihood, this market will gravitate toward the area around the Grain Belt Brewery or the former School District headquarters before considering the Lowry Corridor. These areas have better transportation access, additional available space, and are more proximate to the downtown. If larger office users were to be drawn to the Lowry Corridor, the area with the most potential would be near the Marshall Street intersection given its access to the Mississippi River and larger industrial properties that could be redeveloped.

If experiential retail concepts can be supported in the Lowry Corridor, there may be an opportunity to incubate high-tech and creative industries (e.g., architects, graphic artists, etc.).

DEVELOPMENT POTENTIAL AT KEY LOWRY AVENUE INTERSECTIONS

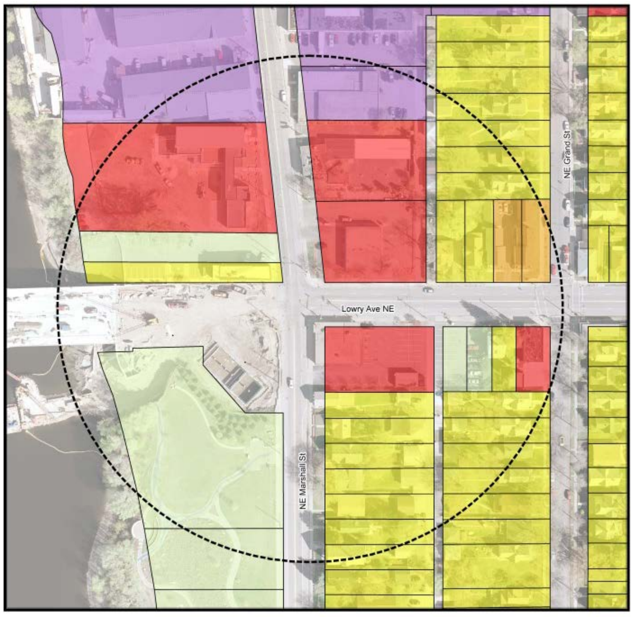
The previous sections of the report addressed the market forces that will influence demand for new development along the Lowry Corridor. This section of the study focuses on the attributes of key intersections along the Corridor and determines whether there are redevelopment sites available that may be able to absorb some of this demand and identify issues and opportunities associated with these focus areas.

Not every parcel is a likely redevelopment site. Many parcels along the Corridor are of a size or level of intensity that makes them too expensive to acquire and redevelop in a profitable manner. Others may have attributes that make them unattractive for certain types of development. For example, retail uses can be difficult to site due to their demanding locational needs. Retail is highly competitive and seeks locations that have high pedestrian/vehicular traffic, exceptional visibility, convenient access and adequate parking. Moreover, most commercial development requires lot depths of 150 to 200 feet. Given predominant lot depths in the Corridor, acquisition of multiple properties would be common in order to support development. Other uses such as multifamily housing, offices or structured parking have much more flexible site requirements and therefore can be successful on a wide range of sites throughout the Corridor.

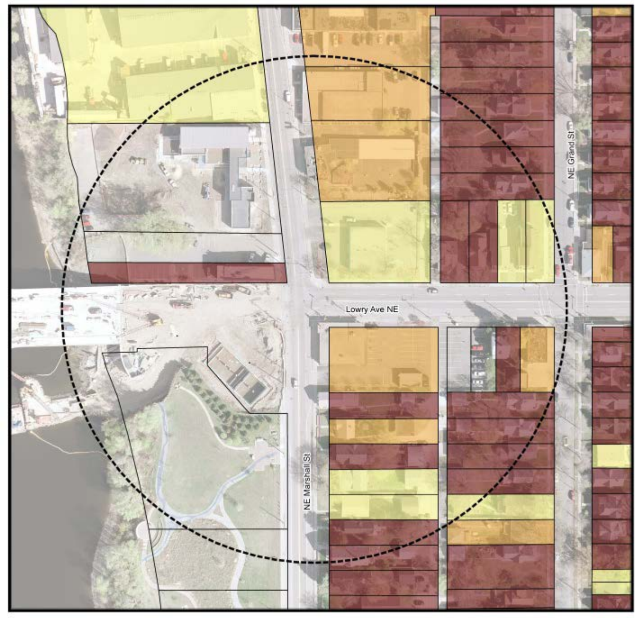
To identify the redevelopment opportunities in each key intersection, Stantec used a multi-step process to screen properties using geographic information systems (GIS), stakeholder interviews and field surveys. Some of the GIS components of this screening process included analysis of building ages and conditions, ownership patterns, existing land use, zoning, and property valuation. This GIS work was then supplemented by sending Stantec staff with experience in real estate development site selection into the area to physically each focus area.

This analysis does not address the policy issue of whether it is more desirable to maintain existing uses or redevelop sites into new uses. Individual parcels or intersections should not be considered priority redevelopment sites or threatened properties. The goal of this analysis was to identify sites where there appeared to be conditions that might make developers view the redevelopment potential as positive and therefore result in redevelopment pressure. Knowing where development pressures are located can help policymakers understand where there may be opportunities that need to be nurtured to ensure they reach their full potential or if the existing conditions are to be preserved, where steps may need to be taken before it is acquired for redevelopment.

MARSHALL STREET NE AND LOWRY AVENUE NE



Marshall Street NE Intersection Area 2013 Existing Land Use



Marshall Street NE Intersection Area Building Age

Current Situation

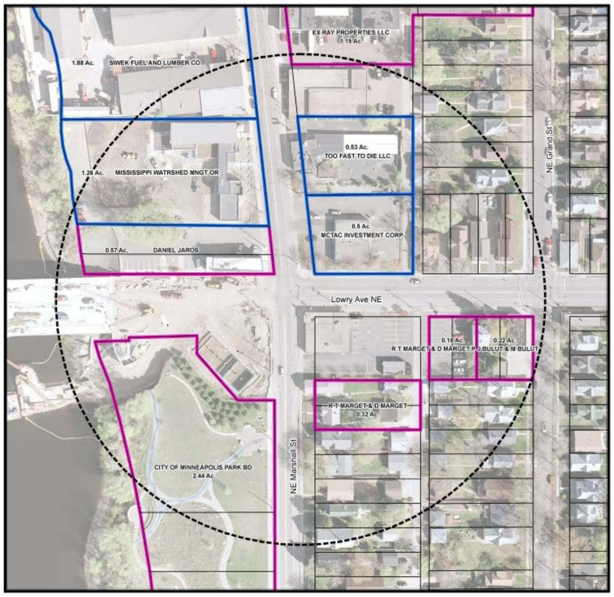
The intersection of Marshall Street and Lowry Avenue is located at the western most point of the Corridor and is at the base of the newly reconstructed Lowry Bridge. It is a key gateway to the Corridor and Northeast Minneapolis in general. The intersection is primarily commercial in character with commercial uses on three of the four corners. Traffic volumes at the intersection total approximately 22,000 vehicles per day with Lowry Avenue accounting for 14,000 vehicles and Marshall Street accounting for 8,000.

The parcels on the northwest corner of the intersection contain a bar and a new office building. The northeast corner currently consists of a recently closed car wash and a vacant lot; both of which have plans to be redeveloped into a large restaurant with a Ferris wheel. The southeast corner contains a single-story liquor store with surface parking. The southwest corner consists of park space with trails and access to the Mississippi River.

Properties located north of the intersection along Marshall Street transition into a mixture of various types of industrial uses. East and south the intersection, properties mostly consist of older, single-family homes.

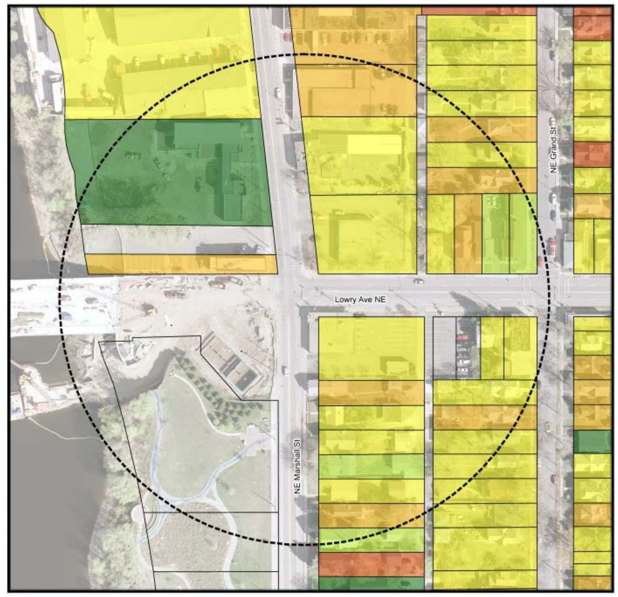
Development Strengths

There are a number of strengths that could attract additional development on or near the intersection of Marshall Street and Lowry Avenue. First, the proximity of the Mississippi River and the park space nearby is a significant amenity. Second, the area already has substantial momentum for change with new development



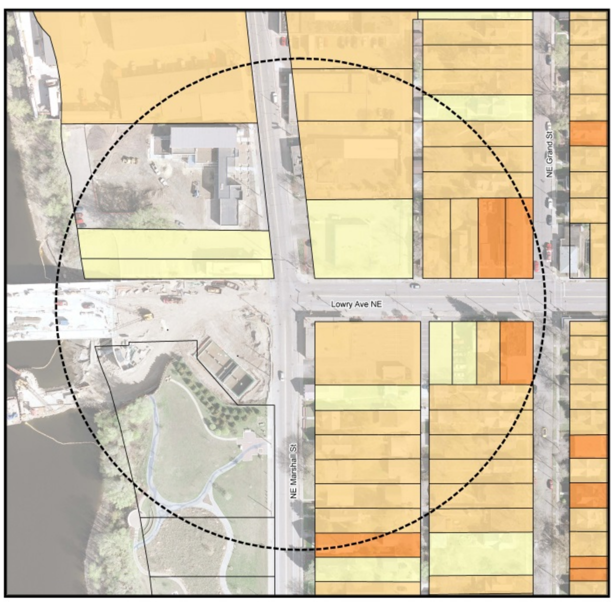
Marshall Street NE Intersection Area Ownership and Parcel Size

400' Radius Intersection Area
Parcels 0.5 Acres and Larger
Multiple Parcels by Same Owner
January 31, 2014
0 120 240 Feet



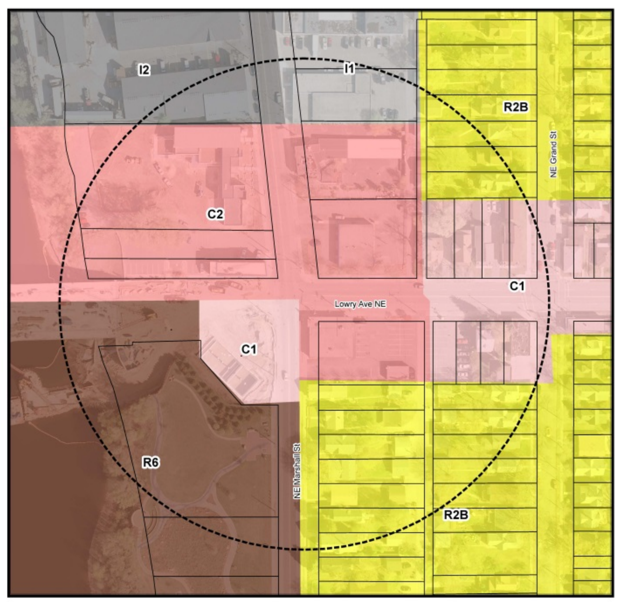
Marshall Street NE Intersection Area Property Conditions

400' Radius Intersection Area
Good
Average Plus
Average
Average Minus
Fair
Poor
January 31, 2014
0 120 240 Feet



Marshall Street NE Intersection Area Property Valuation

400' Radius Intersection Area
Estimated Total Property Market Value per Squarefoot up to $15
Estimated Total Property Market Value per Squarefoot $15 to $30
Estimated Total Property Market Value per Squarefoot $30 to $45
Estimated Total Property Market Value per Squarefoot $45 to $60
Estimated Total Property Market Value per Squarefoot more than $60
January 31, 2014
0 120 240 Feet



Marshall Street NE Intersection Area Zoning Districts

400' Radius Intersection Area
C1
C2
C4
I1
I2
R1A
R2B
R3
R4
R5
R6
January 31, 2014
0 120 240 Feet

pending or recently occurring on three of the four corners. Third, the traffic count along Lowry Avenue is approximately 14,000 vehicles per day due to the Lowry Bridge. This is the highest vehicle count anywhere along Lowry Avenue within the Corridor.

Fourth, the prominence of the bridge serves as a way finding beacon for those traveling to the intersection and establishes the area as a gateway for the Corridor, which will increase the prominence of any structures located there. Fifth, there are several parcels near the southeast corner that have a single owner, which increases the potential to create a larger development site. Sixth, property valuations adjacent to some commercial uses are showing a reduced valuation indicating that there may be some negative impacts of proximity, but also indicating that the cost of commercial expansion may be feasible (particularly in the SE corner). Even higher valued areas at $15-30 per square foot, particularly along the River, are in the range of redevelopment. This could open up possibilities to expand northwards into the industrial areas.

Development Weaknesses

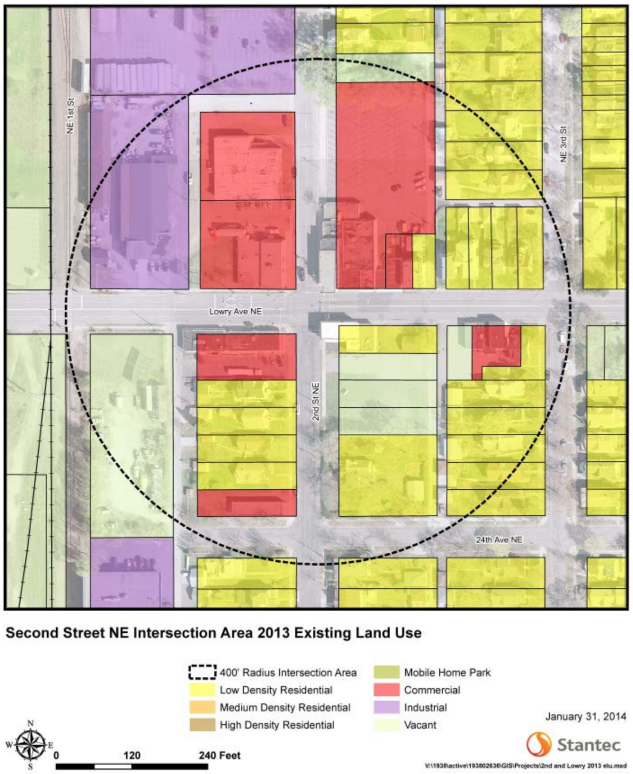
The primary development weakness of the intersection is that due to recent development, there are few options remaining to acquire sites without some sort of new investment. Secondarily, those parcels or sites that have a value or condition that would justify redevelopment are small and would need to be combined with other adjacent properties to be able to support new development. However, the ownership map shows early efforts to consolidate ownership to overcome that weakness.

Conclusions

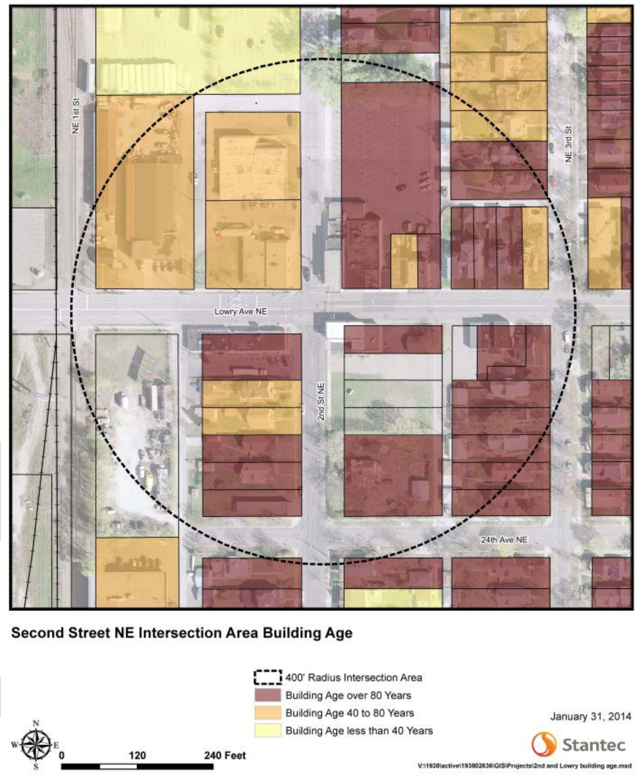
The intersection of Marshall Street and Lowry Avenue has a lot of advantages to prospective developers and any remaining parcels that have not been recently developed will likely attract developer interest in the short-term and especially over the long-term. Furthermore, if the proposed restaurant and Ferris wheel project located on the northeast corner were to come to fruition this would generate significant energy for the area and combined with the emerging park space along the river could make the area a significant destination for not only Northeast Minneapolis residents but also visitors.

Residential and office uses would be drawn to the because of views and access to the River. Retail will be drawn to the area because of strong traffic counts and visibility as well as the activity generated by the park space along the River. Within the Corridor, this intersection has the greatest potential to support new development without public assistance.

2ND STREET NE AND LOWRY AVENUE NE



Second Street NE Intersection Area 2013 Existing Land Use



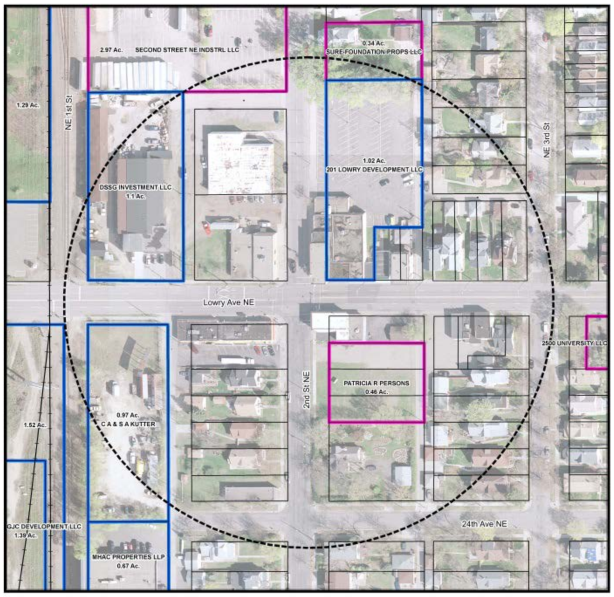
Second Street NE Intersection Area Building Age

Current Situation

The intersection of 2nd Street NE and Lowry Avenue is primarily commercial in character with commercial uses on all four corners, one of which is mixed-use. However, industrial uses associated with the rail line one block to the west also have an important influence over the look and feel of the intersection. Lowry Avenue crosses this rail line at grade. In addition, parallel to the rail line, there is a high-tension power line that further impacts the character of the intersection in that vehicles approaching the intersection from the west along Lowry Avenue traverse a fairly wide area stretch of the roadway in which the rail and power line break up the urban fabric of the Corridor.

Traffic volumes at the intersection total approximately 11,400 vehicles per day with Lowry Avenue accounting for 9,100 vehicles and 2nd Street accounting for 2,300 vehicles.

On the northwest corner of the intersection are two adjoining commercial buildings that appeared to be used as offices in support of nearby industrial operations. On the northeast corner of the intersection is the former Little Jack's bar and restaurant and two smaller adjoining commercial buildings. The Little Jack's property is currently vacant and for-sale. There is a sizable parking north of the building and development interest in the property has been strong as of late. On the southeast corner, there is a small commercial building with residential uses on the second level. Adjacent to this property are several vacant lots along 2nd Street. On the southwest corner is a liquor store.



Second Street NE Intersection Area Ownership and Parcel Size

400' Radius Intersection Area
Parcels 0.5 Acres and Larger
Multiple Parcels by Same Owner

0 120 240 Feet

January 31, 2014

Stantec

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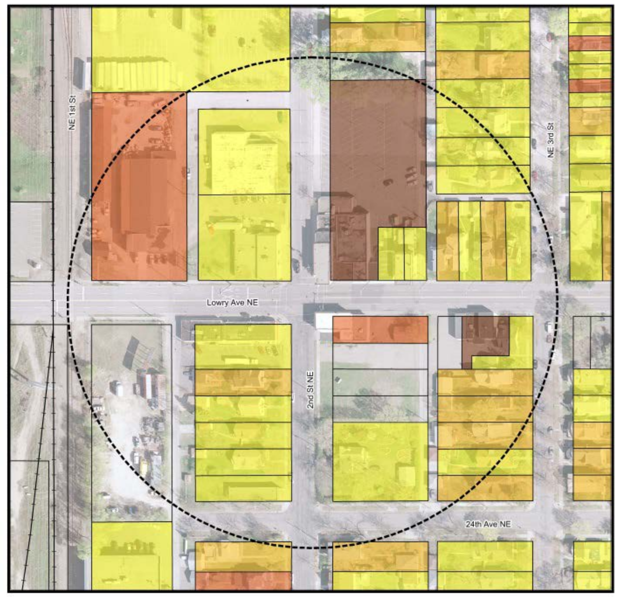

Second Street NE Intersection Area Property Conditions

400' Radius Intersection Area
Good
Average Plus
Average
Average Minus
Fair
Poor

0 120 240 Feet

January 31, 2014

Stantec

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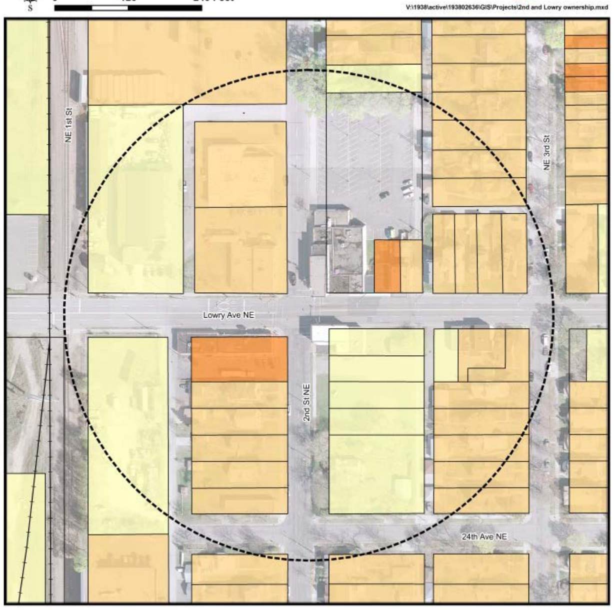

Second Street NE Intersection Area Property Valuation

400' Radius Intersection Area
Estimated Total Property Market Value per Squarefoot up to $15
Estimated Total Property Market Value per Squarefoot $15 to $30
Estimated Total Property Market Value per Squarefoot $30 to $45
Estimated Total Property Market Value per Squarefoot $45 to $60
Estimated Total Property Market Value per Squarefoot more than $60

0 120 240 Feet

January 31, 2014

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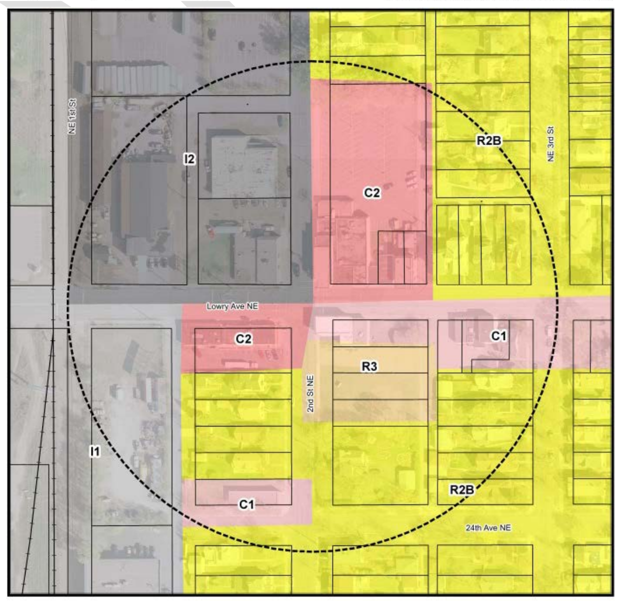

Second Street NE Intersection Area Zoning Districts

400' Radius Intersection Area
C1
C2
C4
I1
I2
R1A
R2B
R3
R4
R5
R6

0 120 240 Feet

January 31, 2014

Stantec

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Surrounding the intersection, land uses generally transition to small, single-family homes to the east and south. Meanwhile, to the west and north, land uses transition to industrial and vacant properties influenced by the nearby rail and power lines.

Development Strengths

The primary development strength of the 2nd Street intersection is the presence of a number of sizable parcels that could accommodate redevelopment without having to acquire adjacent properties. This is especially true of the Little Jack's site. Low value areas are found in the southeast corner of the intersection and attempts to consolidate ownership have been occurring. Moreover, the parcels that form the northwest corner of the intersection if combined could create the largest redevelopment opportunity along the entire Lowry Corridor. There is a similar situation on the southeast corner where one owner controls the three vacant parcels along 2nd Avenue.

Development Weaknesses

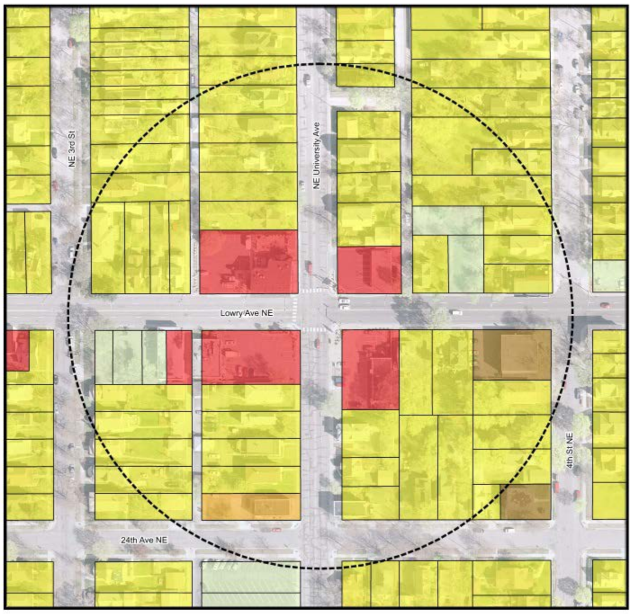
There are several challenges associated with development at the 2nd Street intersection. First, there is very little evidence of any recent investment among the properties that form the intersection. Development activity tends to follow the "action". Without a catalyst, development will likely not occur. With that being said, potential redevelopment at the Little Jack's site could certainly serve as a catalyst. The second development weakness, however, is the impact of the nearby rail line. With an at-grade rail crossing at Lowry Avenue, properties within a block or so of the crossing will be impacted by train whistles and the disruption of traffic along Lowry Avenue. Clearly, some uses, such as industrial and office, will not be as impacted by this situation. However, residential and retail would be depending on the frequency and speed of trains.

Third, the presence of the rail line likely means that there would substantial clean up among any properties immediately adjacent to the line. Fourth, with the possible exception of the mixed-use building on the southeast corner, none of the existing properties appears to be strong candidates for rehabilitation that could catalyze more investment into the area and therefore the character of the area will need to be created rather than based on historic norms. Fifth, the traffic volumes at the intersection would not be able to support many types of retail activity. This is largely due to the fact the fact that 2nd Street carries a small number of vehicles because it terminates two blocks north of Lowry Avenue at the nearby rail yards and does not serve as a convenient throughway.

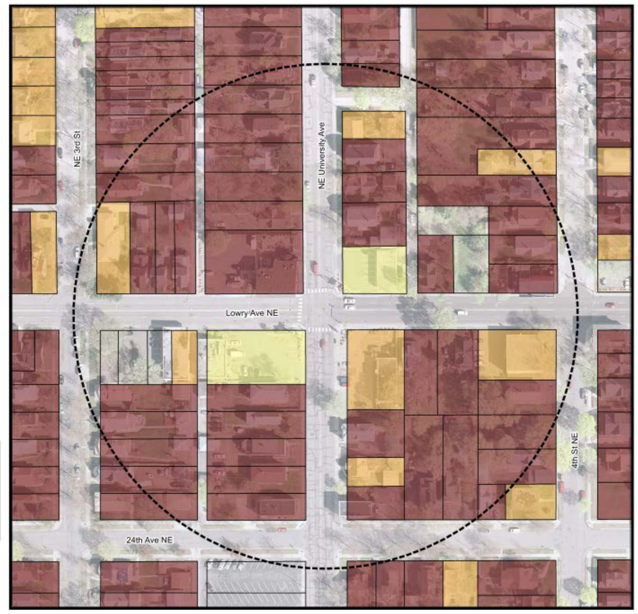
Conclusions

The 2nd Street intersection has the potential to be somewhat of a clean slate in terms of potential future development as many of the parcels are sizable, under similar ownership, and have little existing potential to be rehabilitated. For developers with vision, this may generate a lot of interest because no other intersection along the Corridor will have such large scale potential. Nevertheless, the impact of the nearby rail line will cause uncertainty for many developers due to potential sound and contamination issues. Therefore, as plans for the Little Jack's site unfold, close attention should be paid to the intersection as it could quickly catalyze other projects among developers who want to take advantage of the momentum created.

UNIVERSITY AVENUE NE AND LOWRY AVENUE NE



University Avenue NE Intersection Area 2013 Existing Land Use



University Avenue NE Intersection Area Building Age

Current Situation

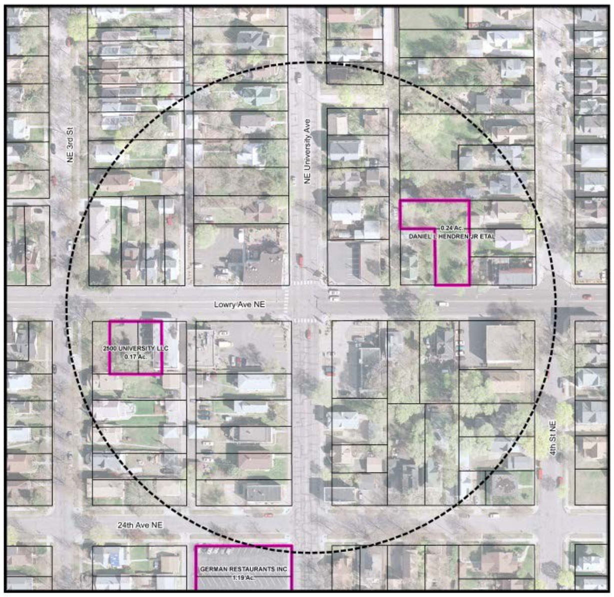
The University Avenue and Lowry Avenue intersection is commercial in character. All four corners of the intersection are occupied by commercial uses. Traffic volumes at the intersection rival Central Avenue and total approximately 22,600 vehicles per day. Lowry Avenue accounts for 9,100 vehicles and University Avenue accounts for 13,500 vehicles.

Occupying the northwest corner of the intersection is Stanley's bar and restaurant. The northeast corner is a convenience store and tobacco shop. The southeast corner is an auto repair business. The southwest corner is Marina's restaurant and an auto repair business.

Beyond the commercial uses that occupy each corner of the intersection, however, the surrounding area consists almost entirely of older, single-family homes.

Development Strengths

The primary attribute of the University Avenue and Lowry Avenue intersection that would draw developer interest is the high traffic volumes. With over 22,000 vehicles per day, each corner provides excellent visibility and could likely support a greater intensification of retail. Secondarily, there is substantial evidence of significant investment into the existing properties. In particular, Stanley's has underground a significant transformation and has set a high standard for the other properties. This type and level of investment generates interest among developers.



University Avenue NE Intersection Area Ownership

400' Radius Intersection Area
Multiple Parcels by Same Owner

January 31, 2014

Stantec

0 120 240 Feet

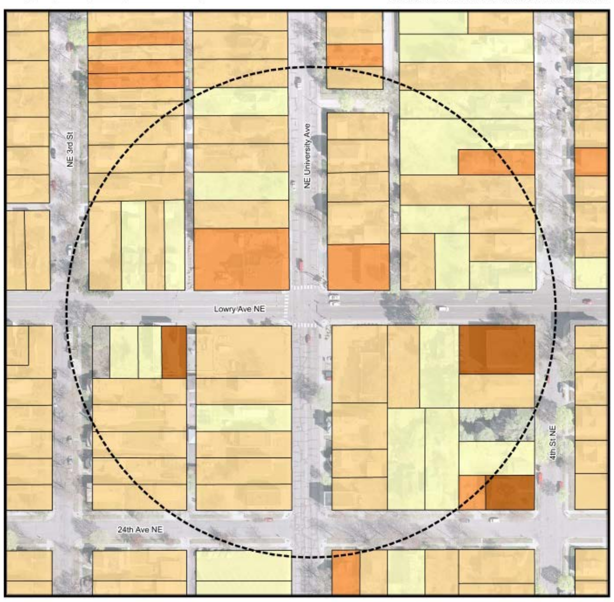
University Avenue NE Intersection Area Property Conditions

400' Radius Intersection Area
Good
Average Plus
Average
Average Minus
Fair
Poor

January 31, 2014

Stantec

0 120 240 Feet



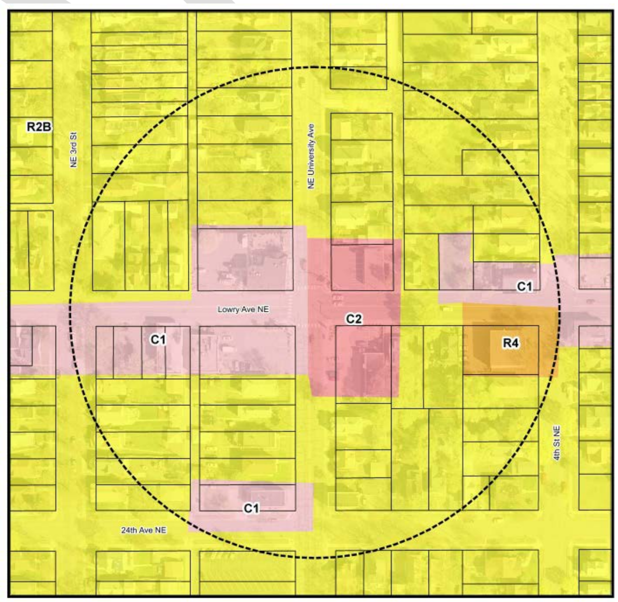
University Avenue NE Intersection Area Property Valuation

400' Radius Intersection Area
Estimated Total Property Market Value per Squarefoot up to $15
Estimated Total Property Market Value per Squarefoot $15 to $30
Estimated Total Property Market Value per Squarefoot $30 to $45
Estimated Total Property Market Value per Squarefoot $45 to $60
Estimated Total Property Market Value per Squarefoot more than $60

January 31, 2014

Stantec

0 120 240 Feet



University Avenue NE Intersection Area Zoning Districts

400' Radius Intersection Area
C1
C2
C4
I1
I2
R1A
R2B
R3
R4
R5
R6

January 31, 2014

Stantec

0 120 240 Feet

Development Weaknesses

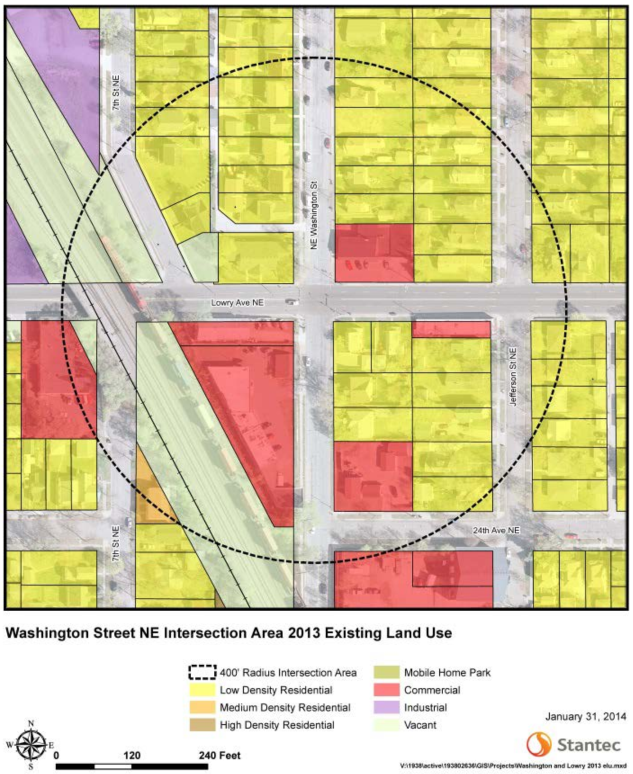
The primary deterrent to developer interest is the lack of properties ripe for redevelopment. Recent investment at several commercial properties has likely pushed up the price of acquisition to a point that redevelopment would be less feasible than at other intersections. More importantly, though, are the presence of numerous small residential lots that abut any existing commercial uses. This means that the time needed to acquire numerous properties for redevelopment is substantial although property valuation data shows it could be feasible for some uses. The existing commercial properties, if acquired, would need to be expanded to support the level of development needed to make a project financially feasible.

Conclusions

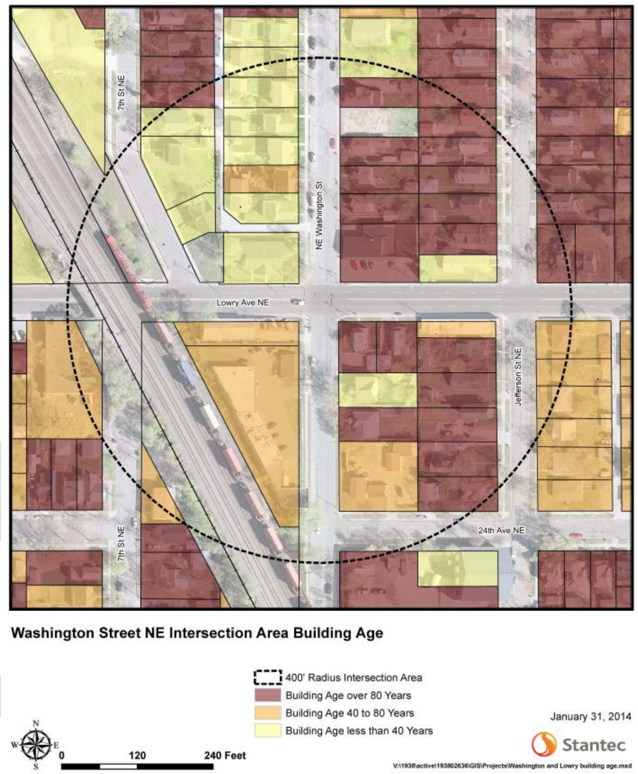
Although traffic volumes are very attractive for development, the opportunities for new development at the University Avenue and Lowry Avenue intersection will be related to site acquisition. Recent investment has pushed up property values among the existing commercial properties, but surrounding, lower priced properties could be combined to create an attractively priced parcel.

The potential to capture investment in the form of significant rehabilitation and repurposing of properties is limited. The one property that has the character and size to warrant rehabilitation has been rehabilitated. The remaining commercial properties have been repurposed in recent years as well, yet their age and style would likely not warrant significant rehabilitation.

WASHINGTON STREET NE AND LOWRY AVENUE NE



Washington Street NE Intersection Area 2013 Existing Land Use



Washington Street NE Intersection Area Building Age

Current Situation

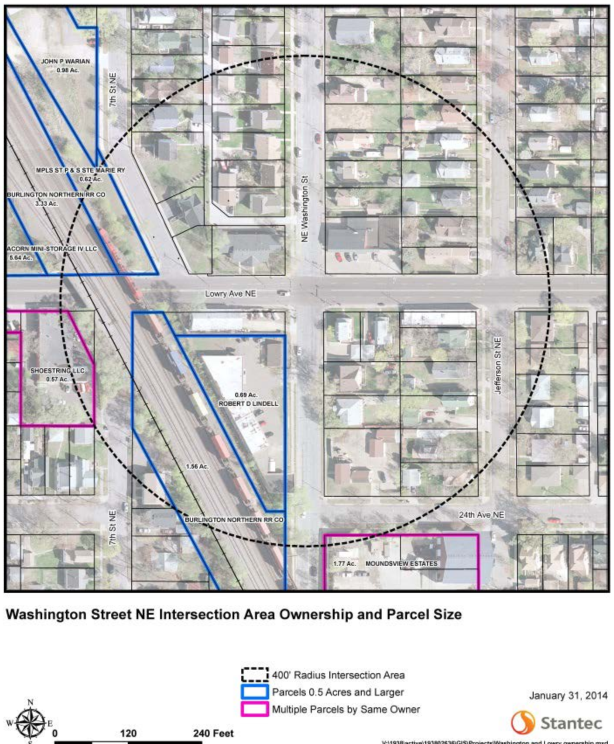
The intersection of Washington Street and Lowry Avenue is a mixture of residential, commercial, and industrial uses and does not have a defining characteristic. However, the railroad viaduct located less than a block west of the intersection clearly has an imposing presence and influences the area's character much like a barrier. Moreover, it is one of BNSF's main rail lines serving the Upper Midwest and, therefore, carries a very high volume of railroad traffic.

Traffic volumes at the intersection are some of the lowest along Lowry Avenue west of Central Avenue. There are approximately 10,600 vehicles per day. Lowry Avenue accounts for 9,000 vehicles and Washington Street accounts for 1,700 vehicles. The low level of traffic along Washington Street is because it terminates two blocks north of Lowry Avenue at the nearby rail yard and does not serve as a throughway. These traffic counts are generally too low to support a significant amount of retail development.

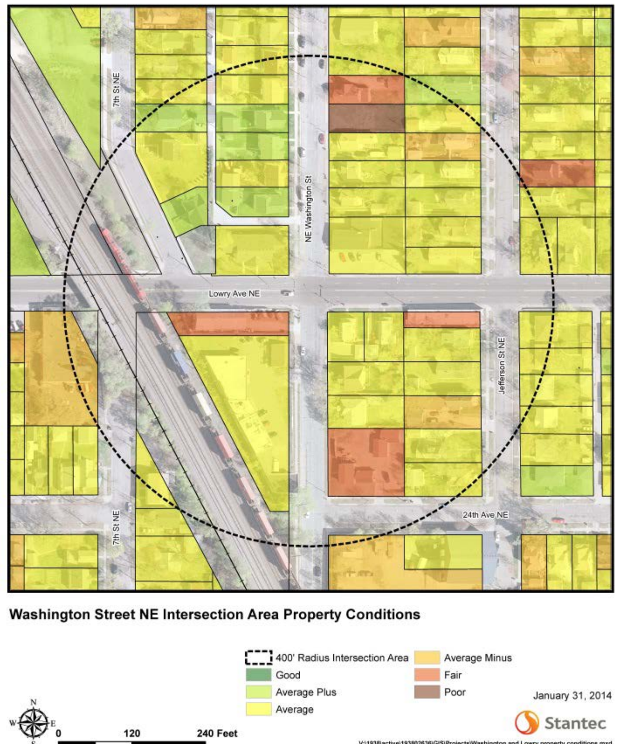
The northwest corner of the intersection is a single-family residence. The northeast corner is a commercial property containing a tattoo parlor and a repair business. The southeast corner is a single-family residence. The southwest corner consists of commercial properties with industrial uses.

Development Strengths

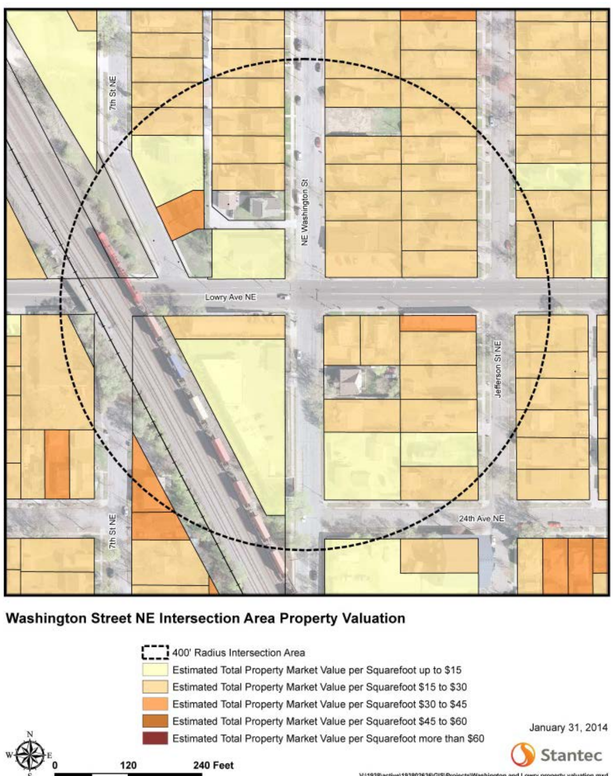
The primary strength of this intersection from a development perspective is the underutilized properties on the southwest corner. Combined, the properties would total nearly one acre and their assessed value is



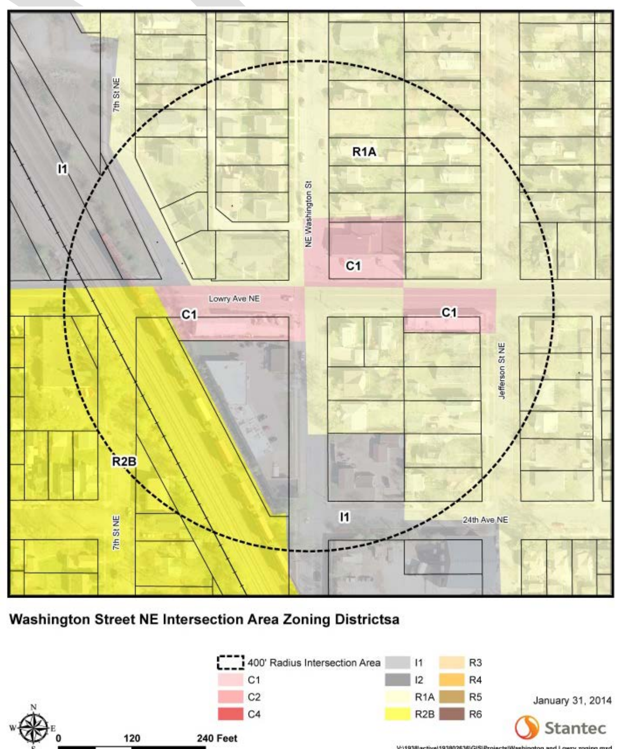
Washington Street NE Intersection Area Ownership and Parcel Size



Washington Street NE Intersection Area Property Conditions



Washington Street NE Intersection Area Property Valuation



Washington Street NE Intersection Area Zoning Districtsa

relatively low on a per square foot basis. Secondarily, the commercial property on the northeast corner could be positioned for more significant rehabilitation.

Development Weaknesses

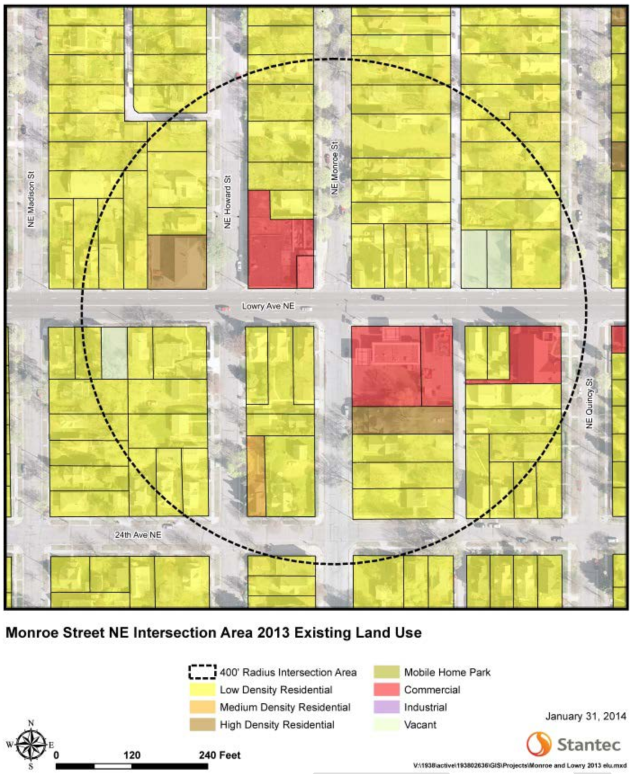
There are a number of development challenges at this intersection. First, the rail line is busy and frequent trains may deter certain types of uses, such as residential uses. However, unlike the rail line near 2nd Street, the crossing is not at grade and, therefore, train whistle noise is minimized. Second, numerous properties in this area are less than 40 years old and have likely yet to reach their financial and functional obsolescence, which is a deterrent to acquiring them and tearing them down. Third, traffic volumes are low relative to other intersections. Therefore, retail uses are limited unless the specific business is less dependent on high traffic areas compared to most retail businesses (e.g. tattoo parlors). Four, potential contamination issues associated with the properties adjacent to the rail line would likely introduce a level of uncertainty for most developers that would cause them to look elsewhere first before coming back to this intersection.

Conclusions

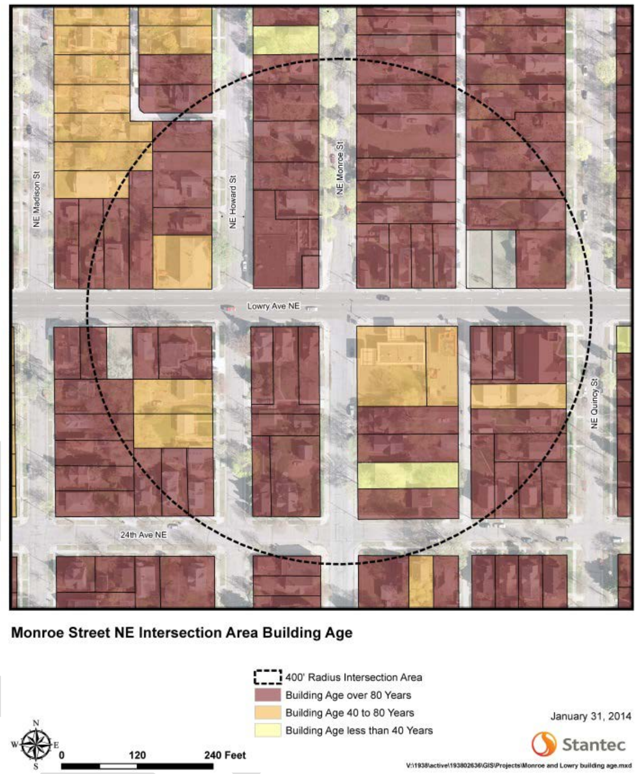
Other than the southwest corner, there is limited development opportunity at this intersection. Two of the four corners are dominated by single-family residences with little potential to acquire lots and clear them for redevelopment. Residential valuations are elevated but would not necessarily preclude redevelopment. However, coupled with the low traffic counts, this area is unlikely to be a significant node of activity. The northeast corner could be rehabilitated into a slightly higher commercial use. However, traffic volumes at the intersection are such that the types of commercial uses are limited to retailers not dependent on traffic or locally-based professional service firms (e.g., legal, tax preparation, chiropractic, etc.).

At the southwest corner, there is a size and valuation situation that might cause some developers to dig a little deeper into a multifamily concept. However, issues related to the adjacent rail line (i.e., potential contamination and noise) would create some uncertainty and consider other less riskier sites first.

MONROE STREET NE AND LOWRY AVENUE NE



Monroe Street NE Intersection Area 2013 Existing Land Use



Monroe Street NE Intersection Area Building Age

Current Situation

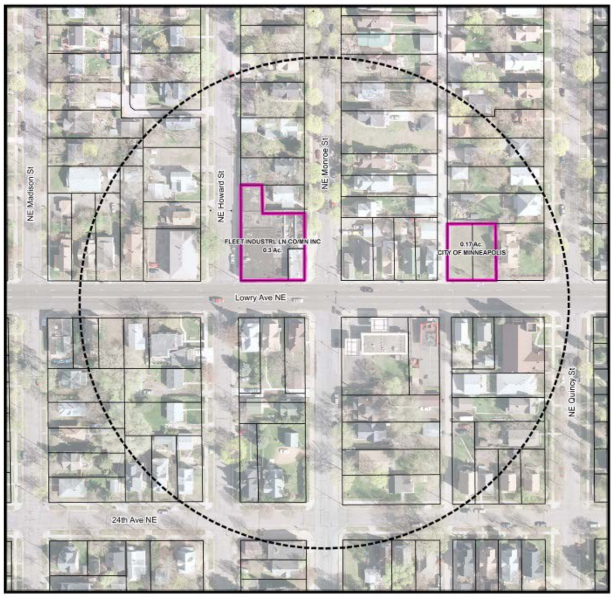
The intersection of Monroe Street and Lowry Avenue is a mostly commercial in character with commercial uses on three of the four corners and residential uses on the two of the four corners. Traffic volumes at the intersection are approximately 11,500 vehicles per day. Lowry Avenue accommodates 9,000 vehicles per day and Monroe Street accommodates 2,500 vehicles per day. The relatively low traffic volumes along Monroe Street are because it terminates two blocks north of Lowry Avenue at the rail yard.

The northwest corner of the intersection consists of a sizable commercial building that appears to be occupied by a religious organization. The northeast corner consists of small, single-family residences. The southeast corner is a gas station and convenience store along with a Dairy Queen on an adjoining property. The southwest corner of the intersection consists of single-family residences, though the house occupying the corner lot does have commercial space located in the ground level of the building.

Besides the commercial uses located at the intersection, most of the surrounding area is dominated by single-family homes. It should be noted, though, that Edison High School is located three blocks south of the intersection along Monroe Street.

Development Strengths

In the northwest corner of the intersection, there is a large use in a prominent location. This could be removed or undergo substantial renovation to improve the at-street presence. It could be a good residential or mixed-



Monroe Street NE Intersection Area Ownership

400' Radius Intersection Area
Multiple Parcels by Same Owner
0 120 240 Feet
January 31, 2014
Stantec
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Monroe Street NE Intersection Area Property Conditions

400' Radius Intersection Area
Good
Average Plus
Average
Average Minus
Fair
Poor
0 120 240 Feet
January 31, 2014
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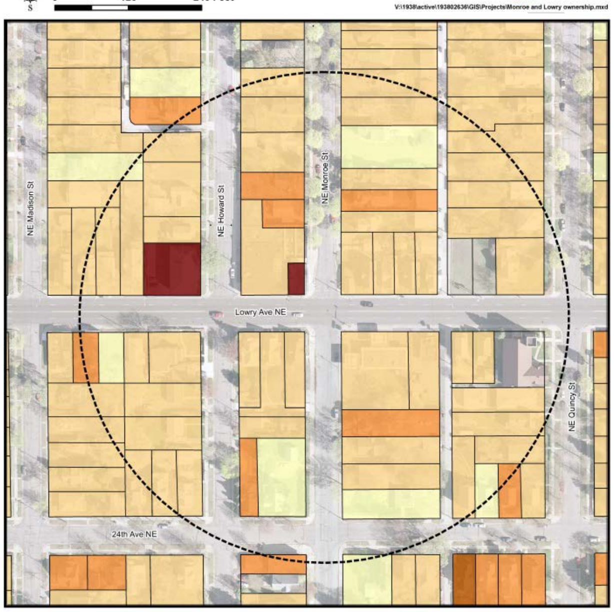

Monroe Street NE Intersection Area Property Valuation

400' Radius Intersection Area
Estimated Total Property Market Value per Squarefoot up to $15
Estimated Total Property Market Value per Squarefoot $15 to $30
Estimated Total Property Market Value per Squarefoot $30 to $45
Estimated Total Property Market Value per Squarefoot $45 to $60
Estimated Total Property Market Value per Squarefoot more than $60
0 120 240 Feet
January 31, 2014
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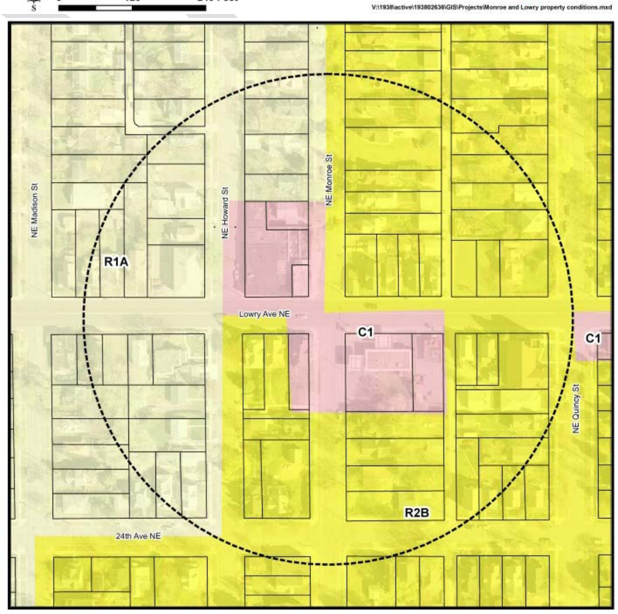

Monroe Street NE Intersection Area Zoning Districts

400' Radius Intersection Area
C1
C2
C4
I1
I2
R1A
R2B
R3
R4
R5
R6
0 120 240 Feet
January 31, 2014
Stantec
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use opportunity, driven largely by the residential component. At the southwest corner, the current situation could be left as is or consideration could be given to expanding the commercial zoning to encourage more, in-house, commercial uses. These uses can encourage entrepreneurs (e.g., live/work), but can also create more problematic uses.

The gas station in the southeast corner is functional, although canopies are smaller than current market expectations. The tanks appear to be in the front of the site with vacant area behind the building, which could create a scenario to improve the site by constructing the main building to the rear of the site, opening up improved access. However, given that there is already a convenience store space and a scarcity of local competition, it is unlikely that a reconfiguration of this type would provide sufficiently increased sales to justify the construction costs and loss of income during construction.

The small home on the northeast corner appears to be out of place and detracts from the adjacent residential properties. However, the lot is too small for compatible residential redevelopment. The best use for this property is likely to allow commercial flexibility (like on the SW corner) which could provide an opportunity for reuse as a small office or retail shop.

Development Weaknesses

Despite the opportunities to create larger sites that are more developable, the intersection does have a number of challenges that limit developer interest. First, the traffic volumes along Monroe Street, similar to Washington and 2nd Streets, are relatively low and can only support limited types of retail. Second, the distance between Monroe Street and Howard Street is problematic for redevelopment. The distance is less than half the width of a typical block, which means that there would be very little room to accommodate a project large enough to support new development. Third, the building on the northwest corner is negative at the street level with large blank walls, air conditioners through the wall, etc. Fourth, the southwest corner has a tiny commercial zoning district that limits possibilities beyond the existing uses. Fifth, at the southeast corner, the gas station is unbranded and has a challenging canopy situation. Though challenging, it is not unusual for urban gas stations. The northeast corner is zoned residential. Sixth, the small house at the corner is not in character/alignment with the other homes.

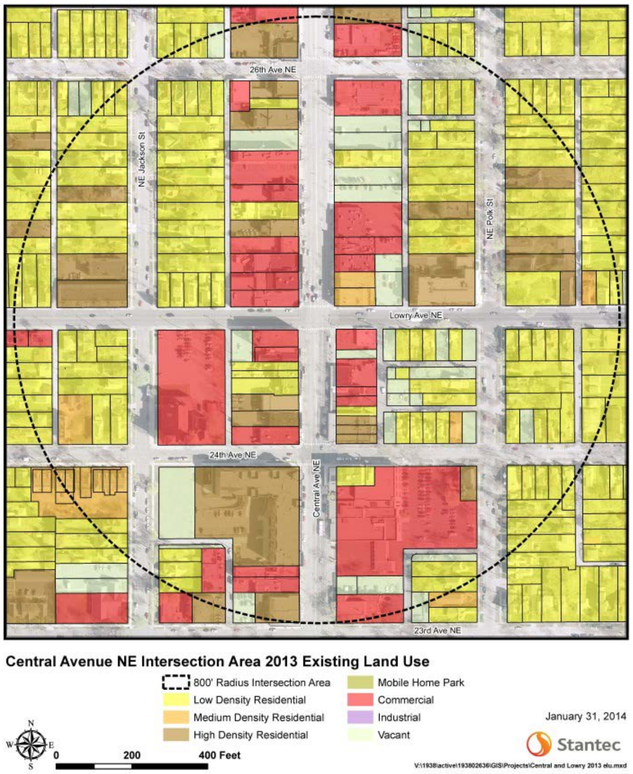
Conclusions

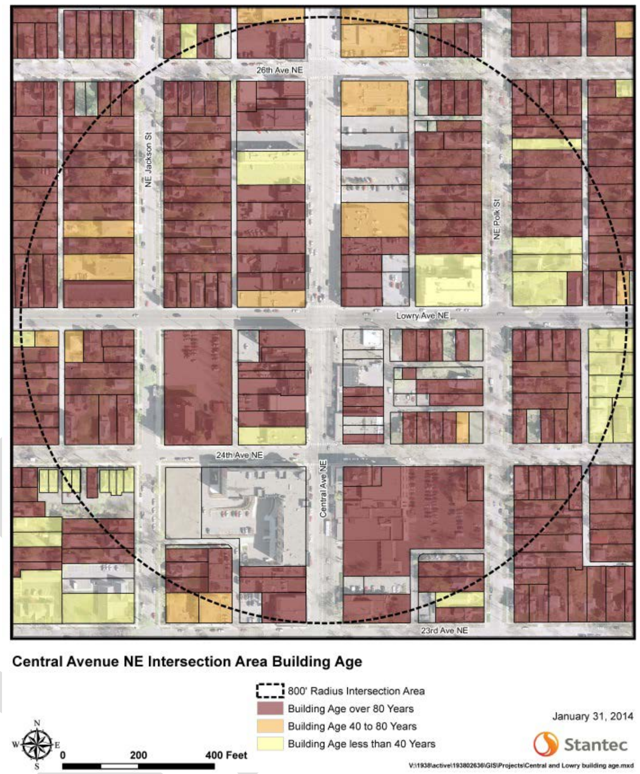
Redevelopment opportunities at Monroe Street and Lowry Avenue are primarily restricted to the northwest and southeast corners of the intersection. However, in both cases, though, the sites would need to be combined with adjacent parcels and they have unique constraints that have to be overcome. The site at the northwest corner is situated between two closely aligned streets, which leaves little room with which to design a feasible structure. The site at the southeast corner will require potentially costly environmental clean-up.

The remaining areas at the intersection are dominated by small, individually owned parcels, which would be difficult to acquire and combine into a site large enough to accommodate new development and would need to be re-zoned.

In terms of renovation or rehabilitation of existing properties, the northwest corner has some potential as long as portions of the site could be cleared to accommodate on-site parking. The other possibility is to follow the example of the commercial space on the southwest corner of the intersection, which is located in the ground level of a former single-family residence. If demand for commercial space significantly outstrips supply on Central Avenue, the main commercial corridor of Northeast Minneapolis located three blocks to the east, there may be demand to convert other single-family properties at the intersection into commercial space. The challenge with that, however, is that this market pressure will likely exert itself closer to Central Avenue before it ever reaches Monroe Street. Furthermore, converted single-family properties almost always depend on on-street parking to meet their needs, and given, the existing challenges of the Lowry Avenue roadway this may be undesirable.

CENTRAL AND LOWRY AVENUES





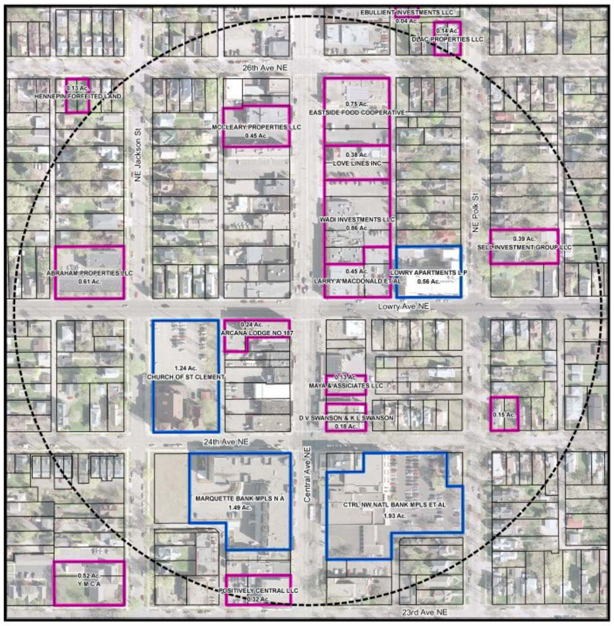
Current Situation

The intersection of Central Avenue and Lowry Avenue is resoundingly commercial in character. The blocks fronting Central Avenue both to the north and south of Lowry Avenue are entirely built up with commercial buildings of various ages and styles, all of which are built to the property edge. Building heights range in size from one to three stories with the upper levels occupied with apartments or office space while the lower levels are almost always retail space.

Central Avenue is the primary commercial corridor serving Northeast Minneapolis. Therefore, its highly built up character is not unusual for a neighborhood of this age and size in Minneapolis. However, the commercial character of Central Avenue generally extends only a half block off of the avenue. The back half of the blocks that front Jackson Street to the west and Polk Street to the east typically consist of small, single-family residences which are common throughout Northeast Minneapolis.

Although the heavily commercial character of Central Avenue extends for many blocks north and south of Lowry Avenue, the intersection at Lowry Avenue is arguably the 100% corner of Central Avenue. It should be noted, though, that the southeast corner of the intersection is currently vacant due to a recent fire that damaged several adjacent structures, which were eventually razed and cleared for future development.

There are a wide range of business types in and around the Central Avenue and Lowry Avenue intersection, including restaurants, boutiques, specialty retailers, small grocers, banks, repair shops, personal and



Central Avenue NE Intersection Area Ownership and Parcel Size

800' Radius Intersection Area
Parcels 0.5 Acres and Larger
Multiple Parcels by Same Owner

0 200 400 Feet

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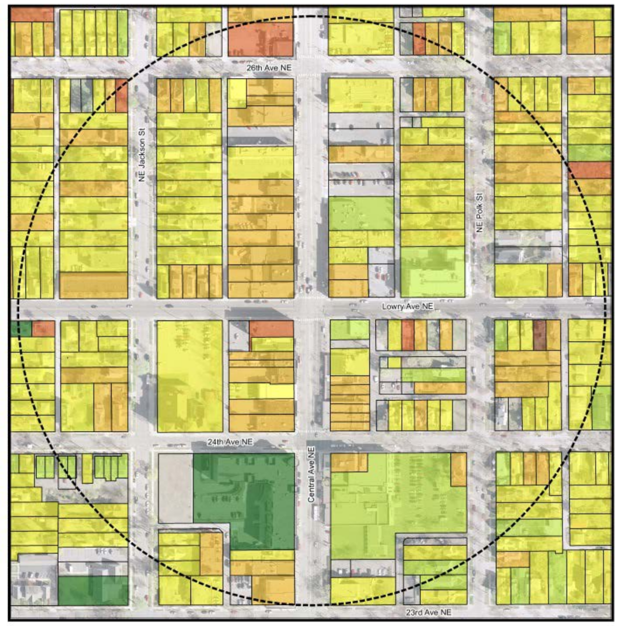

Central Avenue NE Intersection Area Property Conditions

800' Radius Intersection Area
Good
Average Plus
Average
Average Minus
Fair
Poor

0 200 400 Feet

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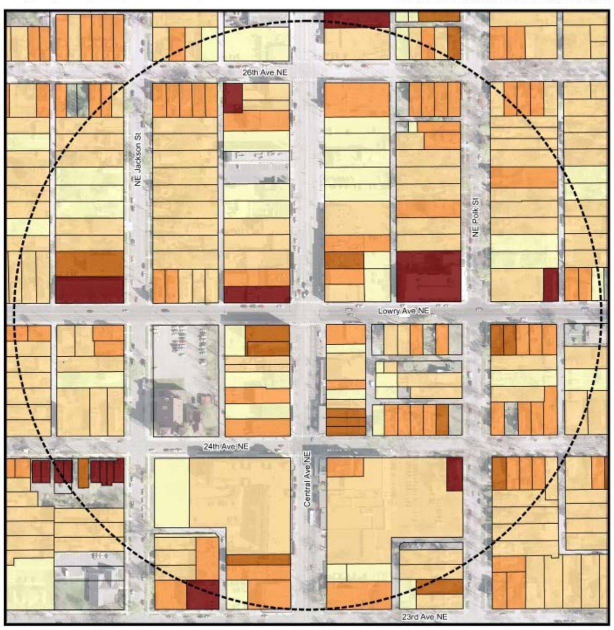

Central Avenue NE Intersection Area Property Valuation

800' Radius Intersection Area
Estimated Total Property Market Value per Squarefoot up to $15
Estimated Total Property Market Value per Squarefoot $15 to $30
Estimated Total Property Market Value per Squarefoot $30 to $45
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Estimated Total Property Market Value per Squarefoot more than $60

0 200 400 Feet

January 31, 2014

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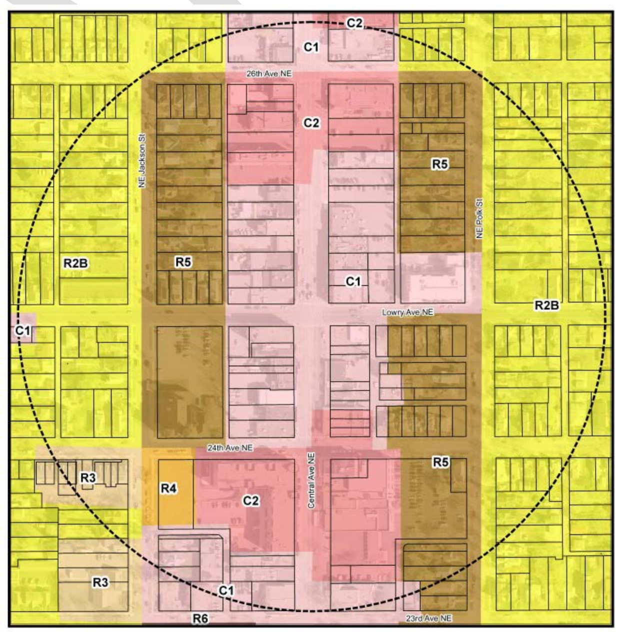

Central Avenue NE Intersection Area Zoning Districts

800' Radius Intersection Area
C1
C2
C4
I1
I2
R1A
R2B
R3
R4
R5
R6

0 200 400 Feet

January 31, 2014

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V:\1938\active\193802636\GIS\Projects\Central and Lowry zoning.mxd professional service firms, to name but a few types. Despite the wide variety of businesses, there are very few national or regional chains as most of the stores are independently owned, many of which cater to particular ethnic or immigrant groups.

Most of the available store space is occupied and there are numerous examples of new businesses and reinvestment of the commercial properties. Although not immediately located at the intersection, there are also recent examples of new development in the area as well. One block south of the intersection at Central and 24th Avenues, the Central Avenue Lofts is a 2007 mixed-use development with three stories of apartments above ground floor commercial space. One block east of the intersection at Lowry Avenue and Polk Street is Audubon Crossing a 2010 three-story apartment building.

Traffic volumes at the intersection are nearly 23,000 vehicles per day with 14,000 vehicles along Central Avenue and 9,000 along Lowry Avenue. Furthermore, Central Avenue is served by high-frequency bus service, which means during weekday rush hour periods busses are spaced less than 10 minutes apart. Furthermore, the Central Avenue corridor is being planned for a streetcar.

Development Strengths

There are a number of factors that will attract developer interest to the Central Avenue and Lowry Avenue intersection. First, the intersection has significant traffic levels along both Central and Lowry Avenues and each corridor is served by transit. This makes the intersection one of the best accessed intersections in Northeast Minneapolis. Second, Central Avenue is a major north-south thoroughfare that directly connects downtown Minneapolis to northeast Minneapolis. Third, the area has a great eclectic vibe both in terms of buildings and uses.

Fourth, there is a very strong development momentum in and near the intersection with numerous examples of new development, both commercial and residential, as well as substantial levels of reinvestment into existing properties. Fifth, although national chains have yet to fully embrace Central Avenue, there appears to be growing interest among outside investors looking to capitalize on the energy and vitalization found along Central Avenue. Therefore, it will only be a matter of time before national chains begin to invest in the area as well.

Sixth, the southeast corner of Central Avenue and Lowry Avenue is a highly prominent vacant lot that is ready for development. Seventh, Central Avenue is being planned as a possible location for a new streetcar line that will connect it to downtown Minneapolis. Although Central Avenue is already served by high-frequency bus service, a streetcar will likely increase the potential for additional developer interest due to the permanence and improved quality of the service.

Development Weaknesses

In terms of redevelopment where strategic replacement of key properties is the goal, the primary challenge for the area in and near the intersection of Central Avenue and Lowry Avenue is its own success. Currently, the market is strong with low vacancy and rising rents. This will push up property values to a point that even poor quality properties may become too expensive to purchase and replace because they generate significant income. However, if rents rise high enough, strategic replacement becomes more feasible. This dynamic, however, will likely be kept in check somewhat because many of the properties in the area are small buildings on small lots that lack any on-site parking. This will help keep rents from rising too high, or at least high enough to make strategic replacement feasible.

If rehabilitation and restoration is the primary goal, there will likely be very strong developer interest as rising rents will induce additional investment into existing properties. The barrier under this scenario will mostly be related to parking issues. It appears that there may be sufficient surface areas to accommodate a significant amount of off-street parking between and behind existing buildings. However, there is no coordinated parking plan or effort to direct visitors to easily accessible off-street spaces. Therefore, the supply of parking is poorly matched up with demand, such that owners of small properties who do not have the space to accommodate off-street parking are entirely dependent on on-street parking. If a coordinated parking plan were in place in which visitors could easily locate shared off-street parking in a specified, central location, this would likely translate to increased property values.

Conclusions

The intersection of Central Avenue and Lowry Avenue has a lot of positive momentum that will serve to attract developer interest. The area has a strong mix of new and long standing businesses in which vacancies are low and rents are rising. There are numerous examples of both new development as well as significant reinvestment. Transit access is strong and will likely only get stronger if plans for a streetcar line come to fruition. Therefore, sites that are currently undervalued due to condition or obsolescence will be closely evaluated for their redevelopment potential. This paints a picture in which the area could change rapidly if rents rise high enough and newcomers bring with them higher incomes.

Keeping such a rapid transformation in check is the fact that assembling sites large enough to support new development is very difficult and will continue to become even more difficult as rents continue to rise for all types of properties, thus limiting the financial feasibility of acquiring them, tearing them down, and building new. This is confounded by the fact that users able to push rents ever higher (i.e., national chains) have generally avoided Central Avenue because of the limited parking spaces available to most stores and the fact that household incomes historically tend to be lower in Northeast Minneapolis than some other parts of the City.

Further confounding the situation is a parking issue in which off-street parking does not appear to be efficiently maximized. If parking can be consolidated into shared or public structures, intensification would likely occur on sites currently being used for surface parking.

As developer pressure grows, it will also be important to identify key sections of Central and Lowry Avenues that contain architectural features and character that contribute to the area’s success and may be protected in some manner through design standards or other measures.