MEMORANDUM

Hoisington Koegler Group Inc.

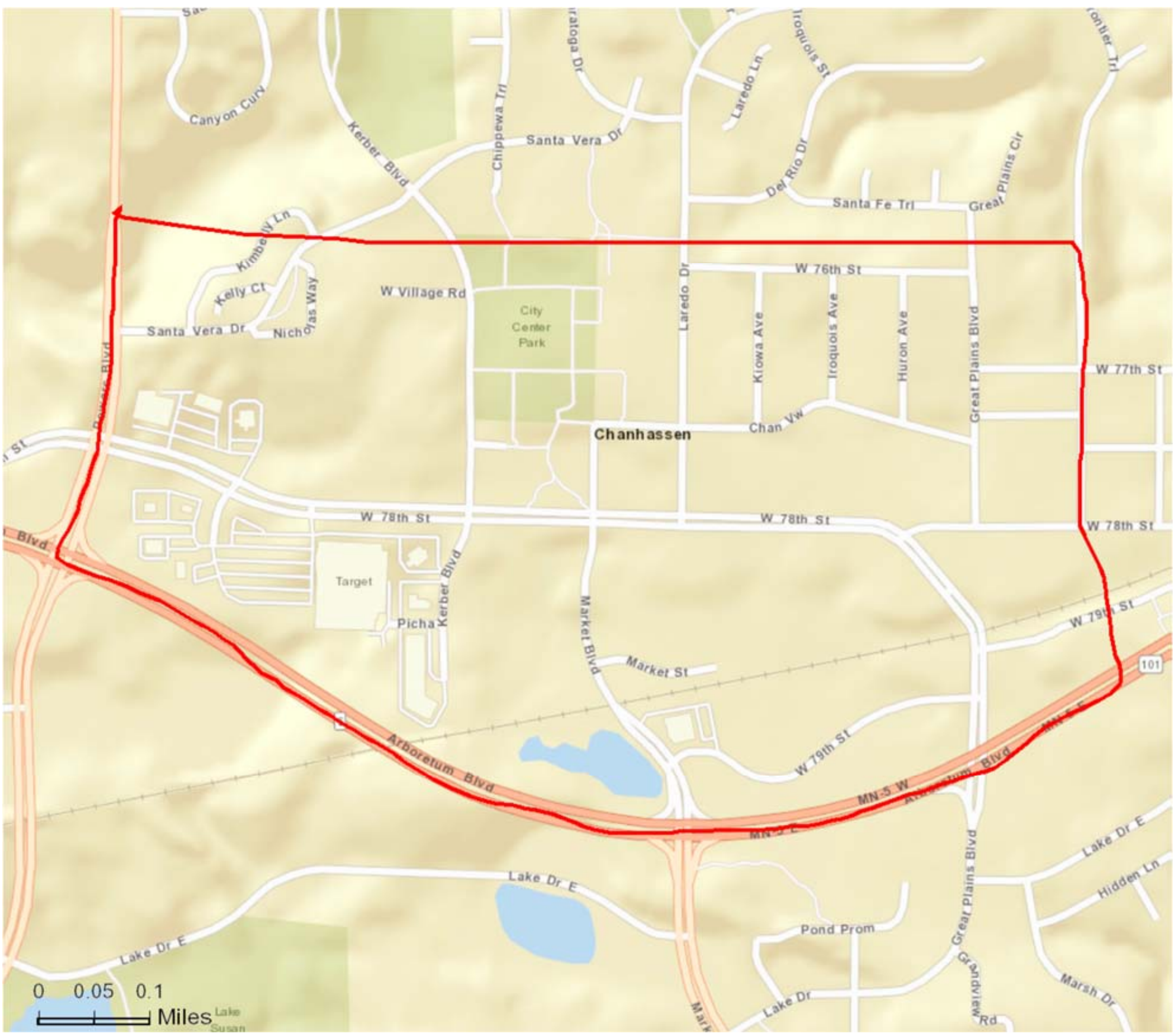
To: City of Chanhassen

From: Britt Palmberg

Subject: Market Scan – Downtown Chanhassen

Date: 21 August 2017

This memo documents the findings of a market scan focusing on determining the potential for various land uses (including retail, office, and residential) for the Downtown Chanhassen area in Chanhassen, Minnesota. This study area specifically includes the main portion of the area commonly known as Downtown Chanhassen, including the areas to the north and east of Highway 5 and Powers Boulevard, as shown in the map below.



123 North Third Street, Suite 100, Minneapolis, MN 55401-1659
Ph (612) 338-0800 Fx (612) 338-6838 www.hkgi.com
Direct (612) 252-7127 Email britt@hkgi.com

The market scan outlines some of the key demographic and market factors impacting the Downtown Chanhassen area and then concludes with some projections for land use for the study area over the next five, ten, and 15 years. The findings of this memo and subsequent conversations with stakeholders will inform the creation of preliminary and final concepts for the Downtown Chanhassen visioning effort.

This market scan draws from a review of demographic and market data compiled by ESRI and CoStar. ESRI is a national database service that gathers demographic and economic data, primarily from the U.S. Census, for any geographic area defined by the user. ESRI provides five year projections for the growth of population, households, and a variety of other demographic and economic data based upon an analysis of trends at the national and local levels. CoStar is a national research database that gathers, more specifically, data concerning the performance of real estate in various categories (including retail, office, and multi-family), drawing from information provided by local and regional brokerages and local CoStar staff that contact local property owners and representatives. CoStar gathers a range of real estate information, including data concerning lease rates, vacancies, inventory, and (where available) the names of tenants in various properties. While CoStar does not provide data for every property in a given local market, information provided by CoStar helps in outlining overall current real estate market conditions in a local area. The analysis draws from demographic projections provided by the Metropolitan Council, as well. The market scan also draws from a site visit to Downtown Chanhassen and the surrounding area and phone discussions with local brokers and representatives of property owners in the study area.

Demographic Background

The following provides an overview of demographic trends in and around the study area that affect the viability of development or redevelopment in the Downtown Chanhassen vicinity. Importantly, in considering the potential market for various land uses, the analysis looks beyond the city limits of Chanhassen. In particular, the current and projected demographic trends in Chanhassen, as well as the neighboring communities of Victoria, Chaska, Eden Prairie, Minnetonka, and Shorewood influence the potential market for various land uses in the Downtown Chanhassen area.

POPULATION (MET COUNCIL PROJECTIONS)							
	2010	2016 (ESRI estimate)	2020 (Met Council projection)	2030 (Met Council projection)	2040 (Met Council projection)	Projected Change, 2016 - 2040	% Change, 2016 - 2040
Chanhassen	22,952	25,448	26,700	31,700	37,100	11,652	46%
Victoria	7,245	8,920	10,000	12,600	15,400	6,480	73%
Chaska	23,770	26,439	27,100	32,000	36,600	10,161	38%
Eden Prairie	60,797	63,163	67,900	75,200	82,400	19,237	30%
Minnetonka	49,734	52,741	53,200	58,000	61,500	8,759	17%
Shorewood	7,307	7,496	7,400	7,500	7,600	104	1%
TOTALS	**171,805**	**184,207**	**192,300**	**217,000**	**240,600**	**56,393**	

Sources: ESRI, Metropolitan Council

Long term projections prepared by the Metropolitan Council indicate that Chanhassen will gain nearly 12,000 residents between 2016 and 2040, and that the six communities (combined) will gain an additional 56,000 residents during this period. Metropolitan Council's projections assume that infill development, as opposed to purely greenfield development (on previously undeveloped lands), will account for at least a portion of the population growth in these six communities over the next 25 years.

HOUSEHOLDS (MET COUNCIL PROJECTIONS)							
	2010	2016 (ESRI est)	2020 (Met Council projection)	2030 (Met Council projection)	2040 (Met Council projection)	Projected Change, 2016 - 2040	% Change, 2016 - 2040
Chanhassen	8,352	9,267	10,000	11,900	14,000	4,733	51%
Victoria	2,435	3,005	3,500	4,570	5,700	2,695	90%
Chaska	8,816	9,531	10,400	12,300	14,200	4,669	49%
Eden Prairie	23,930	24,856	27,400	30,400	33,300	8,444	34%
Minnetonka	21,901	23,367	24,200	26,600	28,300	4,933	21%
Shorewood	2,658	2,736	2,800	2,910	3,000	264	10%
TOTALS	**68,092**	**72,762**	**78,300**	**88,680**	**98,500**	**25,738**	

Sources: ESRI, Metropolitan Council

Similarly, Metropolitan Council has projected the growth in households in the six communities over the next 25 years. The agency projects that Chanhassen will gain over 4,700 households between 2016 and 2040 and that the six communities combined will add nearly 26,000 households during this time period. The projections from Metropolitan Council assume that the number of people per household will continue to decline, over time, resulting in a greater increase in the number of households over the next few decades.

Population by Age - 2017 vs 2022					
Chanhassen	**2017**		**2022**		**Change, 2017 - 2022**
Under 15	5,068	19.7%	4,885	18.1%	(183)
15 - 24	3,501	13.6%	3,142	11.6%	(359)
25 - 34	2,720	10.6%	3,093	11.5%	373
35 - 44	3,202	12.4%	3,642	13.5%	440
45 - 54	4,385	17.0%	3,770	14.0%	(615)
55 - 64	4,081	15.8%	4,392	16.3%	311
65 - 74	1,899	7.4%	2,738	10.2%	839
75 - 84	621	2.4%	957	3.6%	336
85 +	285	1.1%	290	1.1%	5

Source: ESRI

Population by Age - 2017 vs 2022					
SW Metro Area	**2017**		**2022**		**Change, 2017 - 2022**
Under 15	30,519	20.3%	30,223	19.3%	(296)
15 - 24	18,622	12.4%	18,052	11.5%	(570)
25 - 34	16,766	11.2%	18,345	11.7%	1,579
35 - 44	20,030	13.3%	21,871	13.9%	1,841
45 - 54	23,382	15.6%	21,221	13.5%	(2,161)
55 - 64	22,458	15.0%	22,824	14.6%	366
65 - 74	11,836	7.9%	15,843	10.1%	4,007
75 - 84	4,402	2.9%	6,218	4.0%	1,816
85 +	2,052	1.4%	2,228	1.4%	176

Source: ESRI

An analysis of demographic projections by age, prepared by ESRI, for the City of Chanhassen as well as a “Southwest Metro Area” that includes the six communities (Chanhassen, Victoria, Chaska, Eden Prairie, Minnetonka, and Shorewood) indicates that the age 65 to 74 segment will gain the largest number of residents, in both Chanhassen and the larger area, between 2017 and 2022. The 75 to 84 and 85 and older age segments will also experience population increases over the next five years. In line with national trends, the aging of the Baby Boomer population in this part of the metro area will contribute to this trend over the next five years, and beyond. Importantly, however, the 25 to 34 and 35 to 44 age groups will also experience population increases in the local area, as the Millennial generation continues to move into their prime earning years and the prime parenting years. The various demographic trends with regard to aging will impact the choices of local residents with regards to housing, in particular, with the age 65 and older groups continuing to seek out lower maintenance living options, including townhomes, apartments, or condominiums, as well as various senior housing options, as opposed to traditional single family detached housing, in the local area.

	Chanhassen			SW Metro Area			Twin Cities MSA	
	2017	2022		2017	2022		2017	2022
Less than $15,000	2.4%	2.4%		3.7%	3.7%		7.1%	7.0%
$15,000 - $24,999	2.8%	2.5%		4.7%	4.4%		7.7%	7.2%
$25,000 - $34,999	4.0%	3.2%		5.3%	4.7%		7.5%	6.7%
$35,000 - $49,999	6.2%	6.1%		8.0%	7.0%		11.7%	10.4%
$50,000 - $74,999	15.1%	9.3%		13.7%	11.8%		17.8%	15.7%
$75,000 - $99,999	15.7%	16.3%		12.7%	12.0%		14.2%	13.9%
$100,000 - $149,999	19.6%	22.5%		21.0%	22.3%		18.5%	20.9%
$150,000 - $199,999	12.6%	15.1%		12.6%	13.8%		8.0%	9.3%
$200,000 +	21.6%	22.6%		18.3%	20.4%		7.7%	8.8%

Source: ESRI

Chanhassen and the southwest metro area continues to represent one of the more affluent portions of the Twin Cities metro area, as outlined in data obtained from ESRI. Over 50 percent of households in Chanhassen reported household incomes in excess of $100,000 in 2017, and these households should account for over 60 percent of all households in the city by 2022. The larger southwest suburban area (including the aforementioned six communities) reports similar trends in affluency. In contrast, fewer than one third of all Twin Cities households reported household incomes in excess of $100,000 in 2017.

EDUCATIONAL ATTAINMENT (2017) - AGE 25 PLUS							
	Chanhassen	Victoria	Chaska	Eden Prairie	Minnetonka	Shorewood	Twin Cities MSA
Less than 9th Grade	0.9%	0.9%	2.4%	1.0%	0.8%	0.0%	2.9%
9th - 12th Grade, No Diploma	2.2%	0.8%	2.3%	1.6%	1.5%	1.3%	3.6%
High School Graduate or GED	11.6%	10.0%	19.6%	9.7%	12.7%	9.7%	21.5%
Some College, No Degree	15.3%	15.6%	19.6%	15.9%	17.7%	17.3%	20.5%
Associate Degree	7.9%	11.1%	12.1%	9.0%	8.6%	7.5%	10.6%
Bachelor's Degree	41.9%	44.2%	31.1%	39.3%	35.6%	41.6%	26.7%
Graduate / Professional Degree	20.1%	17.4%	12.9%	23.5%	23.1%	22.5%	14.3%

Source: ESRI

Chanhassen and the surrounding communities continue to report very high levels of educational achievement, with over 60 percent of residents over the age of 25 holding Bachelor's or masters degrees. The other communities in the area report similar statistics with regard to educational attainment. The overall Twin Cities metro area continues to have one of the most educated adult populations in the country, with over 40 percent of residents over the age of 25 holding a Bachelor's degree or greater.

EMPLOYMENT (MET COUNCIL PROJECTIONS)							
	2010	2016	2020 (Met Council projection)	2030 (Met Council projection)	2040 (Met Council projection)	Projected Change, 2016 - 2040	% Change
Chanhassen	10,905	14,581	15,200	16,500	17,600	3,019	61%
Victoria	1,502	1,102	2,100	2,380	2,600	1,498	73%
Chaska	11,123	12,949	13,600	16,000	17,600	4,651	58%
Eden Prairie	48,775	59,562	57,700	62,100	66,600	7,038	37%
Minnetonka	44,228	44,788	54,400	58,900	63,200	18,412	43%
Shorewood	1,113	1,437	1,300	1,340	1,400	(37)	26%
TOTALS	**117,646**	**134,419**	**144,300**	**157,220**	**169,000**	**34,581**	

Source: Metropolitan Council

The Metropolitan Council has prepared projections for employment, by community, for the Twin Cities region through 2040. Eden Prairie and Minnetonka, given their locations along the I-494 corridor, already have significant employment bases, and the agency projects continued growth in employment in the two communities over the next 25 years. Chaska and Chanhassen will also experience continued growth in employment, with Chanhassen projected to gain over 3,000 jobs between 2016 and 2040. Victoria and Shorewood will continue to operate as largely "bedroom communities", in this portion of the metro area.

Overview of Local Real Estate Conditions

The following outlines local market conditions in Downtown Chanhassen and the local area, including CoStar data and observations from site visits and discussions with local brokers and real estate representatives.

Retail:

Data from CoStar indicate that the retail properties in the Downtown study area report fairly healthy metrics compared to surrounding areas. The downtown district (north of Highway 5) includes a total of over 735,000 square feet of retail space. The area experienced an increase of retail square footage over the last three years as a number of quick casual eateries and smaller, in-line retail stores opened along Highway 5 (including Potbelly, Sport Clips, and Smashburger). The reported lease rates in the Downtown area exceed those for the overall Eden Prairie submarket (which, according to CoStar, includes Chanhassen, Eden Prairie, and adjoining parts of the I-494 corridor in the southwest metro) and the overall Twin Cities metro area. The CoStar data also indicate that the downtown area has relatively limited vacancies that have remained fairly consistent over the last several years. In contrast, the larger Twin Cities market reported higher vacancies for retail spaces during and following the Great Recession.

Overall, the Twin Cities is witnessing a good deal of churn and change in the retail landscape. A number of big box retailers have closed at area malls over the last year, and the preferences of consumers for particular retailers continues to shift fairly rapidly. The retail sector is uncertain of how much online sales will continue to impact retail sales at traditional outlets. The retail development sector has learned, however, that focusing on creating enticing experiences for shoppers (whether at a restaurant, or in a traditional store) is key to driving business. Retailers located in trendy or attractive downtown areas, for example, are benefiting from the popularity of the experience of shopping and hanging out in these types of environments. The broader Twin Cities market has reported annual absorption of new retail space of around 500,000 square feet, on average, over the last four to five years.[1]

[1] Minneapolis-St. Paul Research & Forecast Report, Q1 2017, Colliers International.

RETAIL METRICS							
	Downtown Chanhassen Study Area			Eden Prairie Submarket		Minneapolis MSA	
	Total SF	NNN Rent Overall	Total Vacancy	NNN Rent Overall	Total Vacancy	NNN Rent Overall	Total Vacancy
2007	716,054	$16.00	2.5%	$16.61	3.8%	$15.57	4.6%
2008	716,054	$17.18	2.5%	$15.58	3.5%	$14.40	5.2%
2009	716,054	$17.45	2.1%	$15.40	3.6%	$13.57	5.6%
2010	716,054	$17.45	1.5%	$15.26	3.6%	$13.79	5.6%
2011	716,054	$20.15	0.8%	$16.66	4.1%	$13.38	5.4%
2012	716,054	$20.15	1.1%	$17.24	3.7%	$13.34	4.9%
2013	716,054	$16.00	0.4%	$15.10	3.6%	$13.20	4.5%
2014	716,054	$26.09	1.0%	$15.80	3.6%	$13.33	4.6%
2015	730,466	$21.39	2.2%	$13.69	2.8%	$13.27	4.1%
2016	730,466	$26.64	0.6%	$13.94	2.3%	$13.26	3.2%
2017	735,241	N/A	1.2%	$16.35	2.2%	$14.31	3.3%

Source: CoStar

Discussions with local brokers did indicate, however, that average lease rates in the Downtown area may fall, more often, in the mid teens (on a triple net basis), in contrast to the data collected by CoStar. Lease rates in the $12 to $15 per square foot range would still represent typical lease rates for retail in this portion of the metro area. Brokers also indicated that lease rates escalated more quickly during the early 2000s, and have been slower to increase in the years since the Great Recession, in line with larger regional trends in retail.

The State of Minnesota collects sales tax (and associated sales information) for various businesses in the state, by jurisdiction. While retail sales data for the downtown portion of Chanhassen, per se, is not available, the data outlined as follows indicates that the community has experienced growth in various retail categories over the last few years.

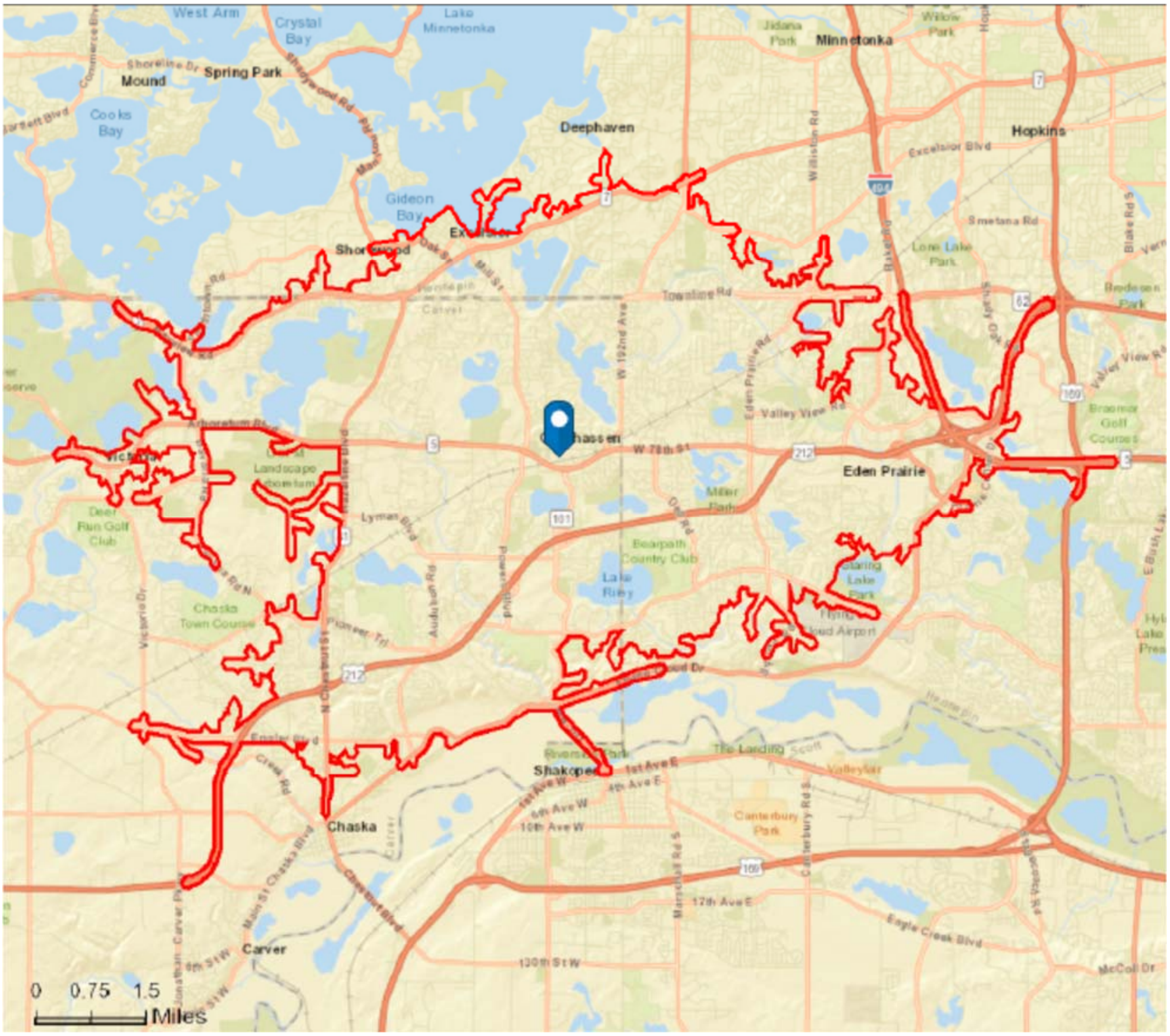
CITY OF CHANHASSEN					
GROSS SALES BY CATEGORY					
	2011	2012	2013	2014	2015
Retail: Vehicles, Parts	$5,427,998	$5,195,846	$5,000,409	$4,799,602	$4,592,169
Retail: Furniture Stores	$2,689,157	$3,363,836	$2,650,020	$3,295,294	$3,604,391
Retail: Electronics	$10,622,915	$6,588,930	$11,628,211	$7,431,337	$7,629,882
Retail: Building Material	$57,682,867	$84,807,442	$120,955,107	$103,384,263	$78,194,721
Retail: Food / Beverage Stores	$90,997,333	$94,126,429	$96,604,536	$99,312,276	$98,861,110
Retail: Health & Personal Care Stores	$16,460,389	$17,938,113	$18,139,023	$27,622,447	$28,851,798
Retail: Gasoline Stations	$40,737,855	$39,977,162	$35,706,003	$39,050,503	$36,620,998
Retail: Clothing & Accessories	$174,616	$214,959	$199,007	$302,258	$452,570
Retail: Leisure Goods	$1,249,452	$1,876,999	$1,130,754	$646,318	$438,828
Retail: Miscellaneous Store Retailers	$53,507,152	$55,946,893	$58,927,248	$60,886,437	$68,542,070
Food Services and Drinking Places	$39,220,955	$40,141,733	$40,713,649	$43,273,960	$46,574,643

Source: Minnesota Department of Revenue

Sales at food and beverage stores (which includes grocery outlets) increased, for example, from around $91 million in 2011 to around $99 million in 2015. Sales at eating and drinking places increased from around $39 million in 2011 to over $46 million in 2015. Health and personal care stores (including pharmacies) increased from sales of $16 million in 2011 to nearly $29 million in 2015. The City of Chanhassen reports relatively limited sales in the motor vehicle, furniture, electronics, clothing, and leisure goods categories, given the lack of a major mall or a major collection of auto dealerships in Chanhassen. The growth in “everyday” retail categories (including grocery and pharmacy) reflects the overall growth in households in the community over the last several years.

The retail tenants and uses in the Downtown Chanhassen area primarily serve neighborhood or “everyday” retail demand. While the downtown district includes a few anchors such as the dinner theater that draw from a larger portion of the metro area, the downtown overall includes grocery stores, eateries, and smaller retail outlets serving the nearby neighborhoods and communities. While the Target store tends to draw from a larger trade area than a grocery store, it does not operate as a “Super Target” or draw from a larger trade area, given the presence of other Target and similar big box stores within a fifteen minute drive, in Chaska and in the Eden Prairie Town Center area. A ten minute drive time represents an appropriate overall retail “trade area” for Downtown Chanhassen. While some tenants in the downtown may draw primarily from neighborhoods located closer to Downtown, and others may draw from a larger portion of the southwest metro, a ten minute drive time represents an average trade area for the district.

Ten Minute Drive Time from Downtown Chanhassen:



Source: ESRI

As outlined on the map, the area within a ten minute drive of Downtown Chanhassen (designated as the location of the Cub store on Market Boulevard, as a central location for mapping purposes) generally includes areas to the north of Flying Cloud Boulevard and east of the Victoria area. The trade area extends to the southern edges of the Lake Minnetonka area in Excelsior and Shorewood and includes areas in Eden Prairie as far east as the I-494 / US 212 junction area.

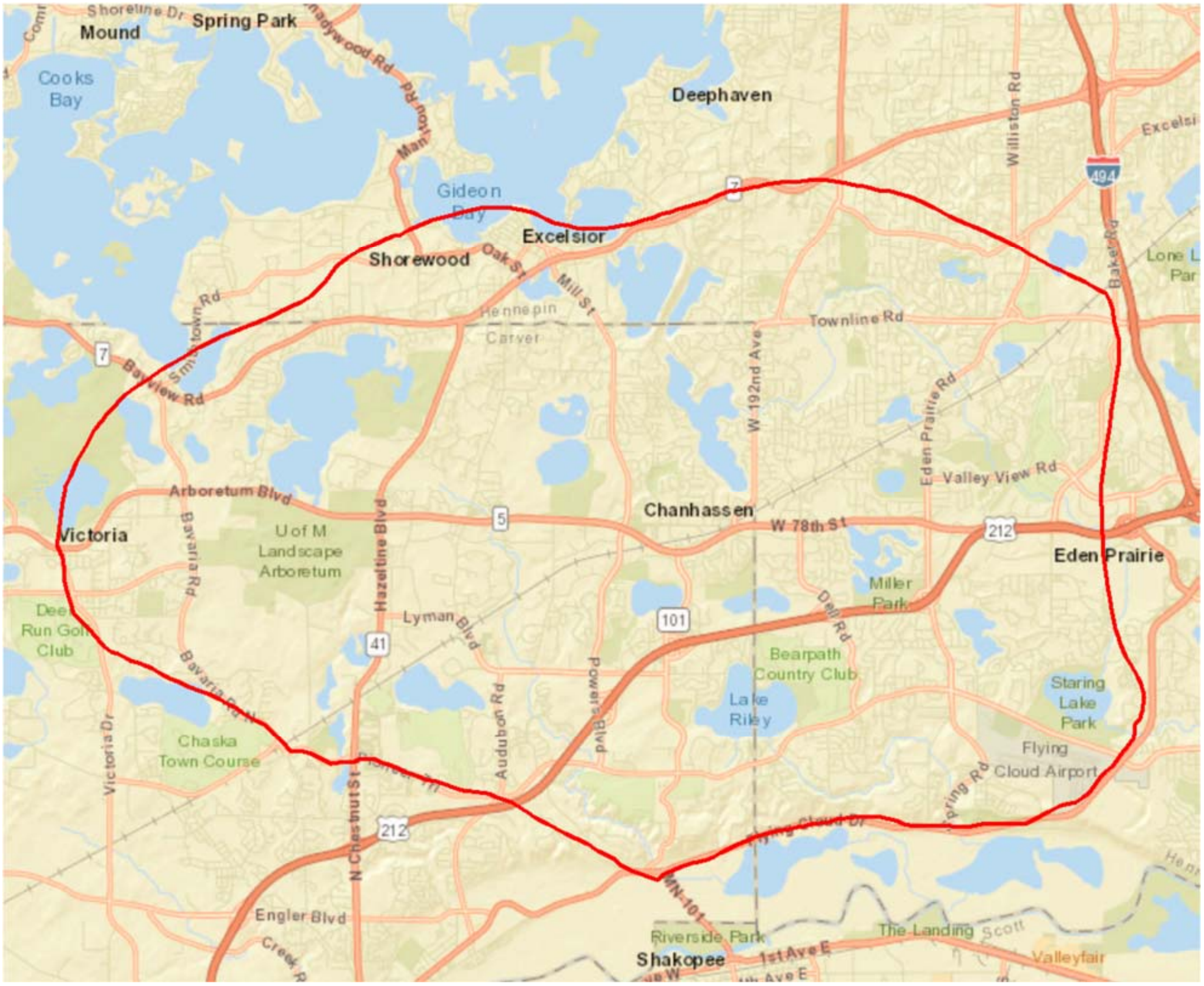
Data from ESRI indicate that the area within a ten minute drive of Downtown Chanhassen is "leaking" (or, losing retail spending to outside areas) in nearly all retail categories.

Retail Category - 10 Minute Drive Time - Retail Trade Area	Retail Potential	Retail Sales	Retail Gap	Leakage or Surplus	Leakage / Surplus Factor
Motor Vehicle & Parts Dealers	$404,805,941	$180,126,375	$224,679,566	Leakage	38.4
Furniture & Home Furnishings Stores	$63,802,098	$19,081,827	$44,720,271	Leakage	54.0
Electronics & Appliance Stores	$72,817,071	$84,524,830	($11,707,759)	Surplus	(7.4)
Building Materials, Garden Equipment & Supply Stores	$144,585,171	$97,012,943	$47,572,228	Leakage	19.7
Food & Beverage Stores					
Grocery Stores	$247,235,145	$160,767,035	$86,468,110	Leakage	21.2
Specialty Food Stores	$15,270,206	$3,379,978	$11,890,228	Leakage	63.8
Beer, Wine & Liquor Stores	$38,584,869	$40,791,128	($2,206,259)	Surplus	(2.8)
Health & Personal Care Stores	$132,600,613	$64,883,747	$67,716,866	Leakage	34.3
Gasoline Stations	$206,408,658	$104,253,432	$102,155,226	Leakage	32.9
Clothing & Clothing Accessories Stores	$106,640,747	$35,881,230	$70,759,517	Leakage	49.6
Sporting Goods, Hobby, Book & Music Stores	$60,673,625	$45,113,213	$15,560,412	Leakage	14.7
General Merchandise Stores	$341,590,044	$337,696,342	$3,893,702	Leakage	0.6
Miscellaneous Store Retailers					
Florists	$4,582,007	$8,128,574	($3,546,567)	Surplus	(27.9)
Office Supplies, Stationery & Gift Stores	$15,682,196	$15,202,915	$479,281	Leakage	1.6
Used Merchandise Stores	$9,669,897	$5,644,164	$4,025,733	Leakage	26.3
Other Miscellaneous Store Retailers	$43,991,278	$21,359,599	$22,631,679	Leakage	34.6
Nonstore Retailers	$31,572,698	$179,231,236	($147,658,538)	Surplus	(70.0)
Food Services & Drinking Places					
Special Food Services	$5,530,578	$849,524	$4,681,054	Leakage	73.4
Drinking Places - Alcoholic Beverages	$12,960,449	$3,871,815	$9,088,634	Leakage	54
Restaurants / Other Eating Places	$197,029,519	$176,063,320	$20,966,199	Leakage	5.6

Source: ESRI

The degree of leakage varies by retail category, as indicated by the "leakage / surplus factor". The downtown area, in particular, reports significant leakage of retail demand in terms of Furniture and Home Furnishings, Clothing, and Drinking Places. The area within ten minutes of downtown reported a very small degree of leakage in terms of restaurants and general merchandise stores (such as Walmart or Target). The area within ten minutes of downtown also exhibits some retail leakage (around $86 million in sales on an annual basis) in the grocery store category.

For the purposes of calculating future retail demand, the analysis considers a fairly similar, but more regularly shaped, retail trade area, as outlined in the map that follows.



Source: ESRI

This trade area includes essentially the same areas as the ten minute drive time map, but excludes the shopping area around the Eden Prairie Town Center, as well as the shopping areas to the north of the Highway 41 and US 212 interchange, as these shopping areas represent significant concentrations of retail that would compete with the concentration of retail found in Downtown Chanhassen.

Retail Category - Local Chanhassen Retail Trade Area	Retail Potential	Retail Sales	Retail Gap	Leakage or Surplus	Leakage / Surplus Factor
Motor Vehicle & Parts Dealers	$404,162,397	$73,298,862	$330,863,535	Leakage	69.3
Furniture & Home Furnishings Stores	$63,915,221	$10,087,510	$53,827,711	Leakage	72.7
Electronics & Appliance Stores	$72,965,947	$84,475,455	($11,509,508)	Surplus	(7.3)
Building Materials, Garden Equipment & Supply Stores	$145,979,012	$67,155,609	$78,823,403	Leakage	37.0
Food & Beverage Stores					
Grocery Stores	$246,140,803	$136,265,129	$109,875,674	Leakage	28.7
Specialty Food Stores	$15,198,158	$2,419,094	$12,779,064	Leakage	72.5
Beer, Wine & Liquor Stores	$38,595,844	$37,490,863	$1,104,981	Leakage	1.5
Health & Personal Care Stores	$132,670,622	$41,166,724	$91,503,898	Leakage	52.6
Gasoline Stations	$205,293,840	$79,575,994	$125,717,846	Leakage	44.1
Clothing & Clothing Accessories Stores	$106,594,543	$26,945,371	$79,649,172	Leakage	59.6
Sporting Goods, Hobby, Book & Music Stores	$60,668,575	$20,427,551	$40,241,024	Leakage	49.6
General Merchandise Stores	$341,012,984	$58,487,260	$282,525,724	Leakage	70.7
Miscellaneous Store Retailers					
Florists	$4,633,815	$828,019	$3,805,796	Leakage	69.7
Office Supplies, Stationery & Gift Stores	$15,688,601	$144,498,316	$1,190,285	Leakage	3.9
Used Merchandise Stores	$9,631,787	$3,461,789	$6,169,998	Leakage	47.1
Other Miscellaneous Store Retailers	$43,800,228	$22,932,667	$20,867,561	Leakage	31.3
Nonstore Retailers	$31,625,861	$33,025,914	($1,400,053)	Surplus	(2.2)
Food Services & Drinking Places					
Special Food Services	$5,532,037	$827,397	$4,704,640	Leakage	74
Drinking Places - Alcoholic Beverages	$12,984,749	$3,544,132	$9,440,617	Leakage	57.1
Restaurants / Other Eating Places	$196,572,912	$122,346,967	$74,225,945	Leakage	23.3

Source: ESRI

ESRI reports similar data with regard to retail leakage versus surplus for this trade area. This trade area surrounding Downtown Chanhassen leaks retail spending in almost every category listed.

Office :

The Downtown Chanhassen area includes a relatively small quantity of office space, totaling around 70,000 square feet. The district includes a variety of primarily smaller office suites, serving professional office users such as doctors, dentists, insurance agents, and other smaller firms, along Market Boulevard and along West 78th Street. The Market Street station development, to the north and east of Cub, has a number of vacancies as of July 2017. As outlined in the table that follows, the downtown area tends to report higher lease rates to CoStar, as well as an overall higher level of vacancy, compared to the immediate submarket in the southwest metro. However, discussions with a few brokers in the area indicate that lease rates for Class B space in the downtown area typically fall in the $10 to $15 per square foot range, at least for professional services tenants. Projects in the downtown area have not added any office space in the last ten years. Areas along the US 212 corridor in Chaska and Eden Prairie, as well as areas near I-494, have tended to include larger concentrations of office development. The office properties in Downtown Chanhassen have typically appealed to locally-serving tenants (such as dentists, insurance agents, and other professionals), and Downtown Chanhassen does not appear to have any notable appeal at this time for larger scale office users.

While the overall economy has continued to recover over the last few years, the office market in the Twin Cities has not witnessed tremendous growth. Vacancy rates, overall, have remained in the mid-teens consistently over several years stretching back to 2010, and the market has absorbed no greater than one million square feet on an annual basis during any of the years since the Great Recession. Lease rates have remained in the mid to upper teens on a square foot basis, over several years. In general, while some notable office developments are taking place in the North Loop, downtown, and in some areas along the 494 corridor, the office market remains in a conservative stance. Companies are using open office formats and telecommuting to reduce the square footage required for a typical employee. Companies have continued to conservatively plan for office expansions and upgrades, and activity in the Twin Cities has tended to focus on the core of Minneapolis and St. Paul and the key nodes of office activity along the 494 beltway.

OFFICE METRICS							
	Downtown Chanhassen			I-494 Corridor Submarket		Minneapolis MSA	
	Total SF	Gross Rent Overall	Total Vacancy	Gross Rent Overall	Total Vacancy	Gross Rent Overall	Total Vacancy
2006	70,925	$19.33	7.7%	$12.93	9.2%	$14.87	9.5%
2007	70,925	$19.33	4.1%	$15.34	9.2%	$15.90	9.8%
2008	70,925	$19.33	2.7%	$16.69	8.6%	$16.14	11.6%
2009	70,925	$17.35	1.1%	$19.25	10.2%	$18.79	13.4%
2010	70,925	$20.00	5.8%	$19.83	9.4%	$17.59	14.2%
2011	70,925	N/A	5.8%	$19.29	8.5%	$17.29	13.4%
2012	70,925	$16.90	N/A	$19.00	8.4%	$17.78	13.6%
2013	70,925	$16.90	N/A	$19.12	9.6%	$18.26	13.3%
2014	70,925	$25.00	16.5%	$19.50	10.2%	$18.68	12.3%
2015	70,925	$25.00	14.5%	$18.13	9.0%	$18.75	12.4%
2016	70,925	$23.40	N/A	$19.70	8.5%	$19.67	11.2%
2017	70,925	N/A	11.8%	$18.96	8.0%	$19.32	11.4%

Source: CoStar

Overall Conclusions, Office:

The area around Downtown Chanhassen is unlikely to develop as a major office or employment area, given the lack of direct connectivity to surrounding freeways. The Interstate 494 corridor has traditionally attracted larger office users, including a variety of corporate style campus buildings. Instead, the area around Downtown Chanhassen is more likely to remain a focal point for smaller scale or neighborhood-oriented office uses.

Multi-Family and Residential:

The multi-family market in the Twin Cities region has demonstrated considerable strength over the last five years, with developers completing a variety of projects around the region. A significant number of these projects have focused on the urban core areas in Minneapolis and St. Paul. However, the multi-family boom has expanded to suburban communities over the last few years, as the region has continued to gain employment and population. The metro area added an impressive 28,000 jobs from 2015 to 2016, and continues to benefit from the presence of sixteen Fortune 500 companies in the region. The significant strength of the for-sale residential market in the Twin Cities has led many would-be buyers to rent apartments, instead of purchasing homes. In addition, the tendency of the Millennial generation to delay home purchases or to avoid home purchases altogether has contributed to the multi-family construction boom witnessed in metro areas around the country, including the Twin Cities. Furthermore, homeownership rates for the Baby Boomer generation have continued to decline, as more residents choose the maintenance-free aspects of rental living. From the fourth quarter of 2015 to the fourth quarter of 2016, the metro area added around 5,000 new apartment units, and the region expects the delivery of another 4,000 units in 2017.[2] Data from Colliers indicate that the market for tenants among Class A apartment communities has become more competitive, with operators offering concessions over the last few quarters. The rents for Class B and Class C apartments, however, have increased more than those of Class A, as the overall multi-family market has tightened and rising rents across the metro have forced many people to consider Class B and Class C apartment living options.

Multi-family development and construction activity continues in the urban core and inner ring suburbs, but activity has also shifted and increased in the outer suburban markets of the Twin Cities. For example, development activity has increased in Downtown Hopkins, in the Ridgedale area of Minnetonka, and along the 494 corridor from Eden Prairie east to Mall of America. The multi-family market will remain strong in the Twin Cities as long as the residential construction market is slow to add additional for-sale options. The lack of supply of single family homes in the metro area is directly impacting the multi-family market in a positive manner. A total of 539 new apartment units should be completed in the Southwest submarket in 2017, on par with the rate of construction in this part of the metro since 2013. The overall vacancy rate for multi-family properties in the Twin Cities should remain in the 3 to 5 percent range, continuing the trend of tight market conditions. The multi-family market remains on solid footing, with four percent year-over-year growth in lease rates expected. Market observers note that property owners have increasingly upgraded Class B or C multi-family properties over the last few years, in order to attract higher rent rates, and as a result the availability of "naturally occurring" affordable housing has decreased over the last few years. In terms of newer units, the average quoted rents in early 2017 in the Southwest Suburbs were as follows: $1,258 for studio units; $1,434 for one bedroom units; $1,893 for two bedroom units; and $2,350 for three bedroom units.[3]

Observers at the regional level also note that development of apartments has moved from the inner ring suburbs (such as St. Louis Park) to existing commercial districts and downtowns in outer suburbs

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[2] Minneapolis-St. Paul Research & Forecast Report, Fall 2016, Colliers International
[3] "Market Viewpoint: Twin Cities Multifamily Market, 2016 – 2017), Dougherty Mortgage LLC

for the same four key reasons that attracted developers to older suburbs, initially, including 1) quick access to major roadways and/or public transit; 2) close proximity to a wide variety of retail stores and personal services; 3) proximity to an assortment of restaurants; and 4) close-by entertainment options (such as movie theaters and restaurants) and outdoor recreational amenities. All of these factors help to attract both the younger professional group (Millennials) as well as Empty Nesters.

Data from CoStar indicate that the apartments in the Downtown Chanhassen area (located to the north of West 78th Street) have exhibited higher lease rates and generally lower vacancy rates compared to the I-494 submarket (covering the southwest metro area) and the broader metro area. Although the apartments located in the downtown study area are relatively older (dating to the 70s and 80s) the overall strength of the multi-family market in Chanhassen has supported healthy rent growth over the last several years.

	Downtown Chanhassen			I-494 Submarket		Minneapolis MSA	
	Total Units	Asking Rent per SF	Total Vacancy	Asking Rent per SF	Total Vacancy	Asking Rent per SF	Total Vacancy
2000	119	$1.06	3.0%	$0.91	2.7%	$0.92	3.4%
2001	119	$1.10	3.9%	$0.94	3.6%	$0.97	4.1%
2002	119	$1.13	4.9%	$0.97	4.4%	$0.99	5.2%
2003	119	$1.13	6.5%	$0.98	6.0%	$0.98	6.7%
2004	119	$1.09	7.3%	$0.97	6.6%	$0.96	7.4%
2005	119	$1.09	8.2%	$0.98	6.8%	$0.97	7.6%
2006	119	$1.10	7.6%	$1.01	6.1%	$1.00	7.0%
2007	119	$1.13	6.5%	$1.04	5.9%	$1.03	6.7%
2008	119	$1.13	5.9%	$1.05	5.7%	$1.04	6.3%
2009	119	$1.11	5.9%	$1.02	6.2%	$1.01	6.6%
2010	119	$1.11	6.1%	$1.03	5.2%	$1.03	6.0%
2011	119	$1.12	5.0%	$1.04	4.9%	$1.04	5.6%
2012	119	$1.13	3.7%	$1.08	4.7%	$1.06	5.0%
2013	119	$1.15	3.2%	$1.12	4.7%	$1.11	5.3%
2014	119	$1.17	3.2%	$1.17	4.9%	$1.14	4.9%
2015	119	$1.24	3.9%	$1.24	4.4%	$1.20	4.9%
2016	119	$1.27	4.5%	$1.32	5.5%	$1.26	4.4%
2017	119	$1.30	4.0%	$1.38	4.1%	$1.30	3.9%

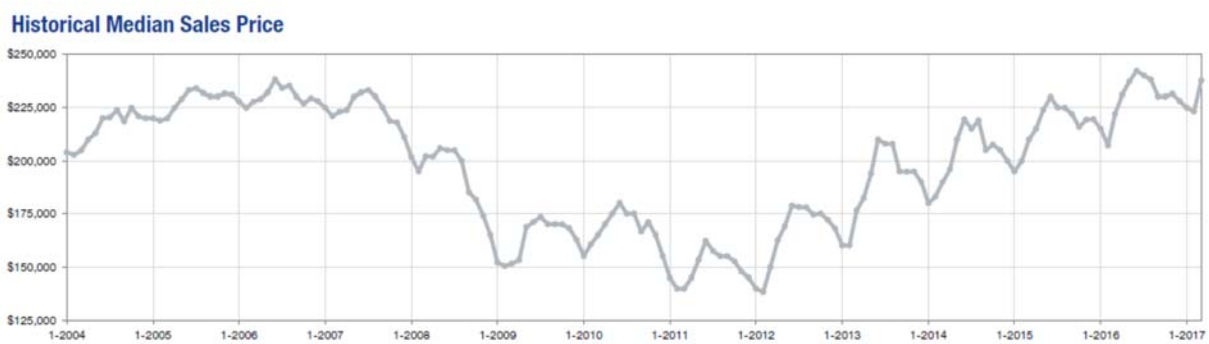
Source: CoStar

The for-sale residential market in the Twin Cities region has largely recovered to pre-Recession levels in terms of sales prices and activity, following four to five years of price appreciation and ongoing increases in single family residential construction. As outlined in the tables that follow, the median home prices in the overall region have increased significantly over the last year. The number of days on market and the months supply of inventory have also improved significantly over the last year. Overall, the housing market in the Twin Cities has remained very tight, in particular for homes in the $200,000 to $300,000 price range, as builders continue to struggle to keep pace with demand.

Local Housing Market Data, March 2017			
	Twin Cities Region		
	March '16 YTD	March '17 YTD	% Change
Closed Sales	9,556	9,867	3.3%
Median Home Price	$216,000	$230,000	6.5%
Price / Square Foot	$126	$136	8.0%
Days on Market Until Sale	88	77	-12.5%
Months Supply of Inventory	2.6	2.0	-23.1%

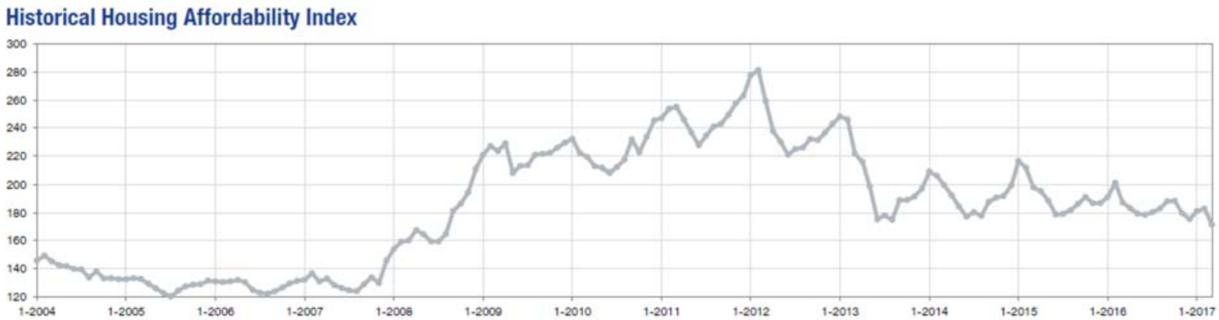
Source: Minneapolis Area Association of Realtors

The graph below from the Minneapolis Area Association of Realtors reveals that the median home sales price in the region has returned to the peaks last experienced in 2006, before the Great Recession.



Source: Minneapolis Area Association of Realtors

However, as incomes have increased over the last ten years across the region, the level of affordability has remained above the levels experienced prior to the last recession, as outlined in the following table.



Source: Minneapolis Area Association of Realtors

Housing affordability peaked during and following the Great Recession, as home values declined across the Twin Cities (and across many parts of the nation). Affordability has decreased over the last four years as home prices have continued to escalate. The increases in home sales prices have impacted both single-family detached and townhome / condo attached products, across the Twin Cities region.

Twin Cities Metro Region Median Sales Price: Single Family Detached Homes		
	Median Price	**% Increase**
2012	$184,000	-
2013	$211,000	14.7%
2014	$225,000	6.6%
2015	$238,000	5.8%
2016	$251,000	5.5%

Twin Cities Metro Region Median Sales Price: Townhome or Condo Attached Homes		
	Median Price	**% Increase**
2012	$125,000	-
2013	$147,000	17.6%
2014	$159,000	8.2%
2015	$165,000	3.8%
2016	$173,000	4.8%

Source: Minneapolis Area Association of Realtors

Like most areas around the country, the Twin Cities region experienced a significant decrease in housing construction activity during and after the Great Recession. The total number of residential building permits issued in the seven-county region decreased from around 21,000 in 2003 and 2004 to around 4,400 in 2009, but returned to a range of 10,000 to 12,000 annual permits from 2012 through 2015. While the region continued to permit 4,000 to 5,000 single family detached residential building permits on average, from 2012 through 2015, multi-family construction has accounted for over half of all residential construction during this period of economic recovery. Townhome permits, which had accounted for over 20 percent of all permit activity prior to the housing crash (from 2003 through 2007), now represent from 4 to 7 percent of all residential permits, over the last four years. The focus on multi-family construction in the Twin Cities region mirrors similar trends in other larger metro areas around the country. Developers in the local region have added a significant pool of multi-family units to local inventories, particularly in the two major downtown areas and in other urban neighborhoods that feature a variety of amenities and good access to the rest of the city. The supply of single-family detached homes has not caught up with demand over the last few years, contributing to increases in the median home price in the Twin Cities region.

Twin Cities Region - Residential Building Permit History										
	Single Family Detached	Percentage of Total	Townhome	Percentage of Total	Duplex	Percentage of Total	Multi-Family	Percentage of Total		Total
2003	9,034	42.4%	4,619	21.7%	216	1.0%	7,414	34.8%		**21,283**
2004	8,244	38.6%	5,126	24.0%	579	2.7%	7,401	34.7%		**21,350**
2005	6,877	39.0%	3,795	21.5%	572	3.2%	6,375	36.2%		**17,619**
2006	5,252	41.6%	2,961	23.4%	229	1.8%	4,185	33.1%		**12,627**
2007	3,648	42.9%	1,851	21.7%	84	1.0%	2,929	34.4%		**8,512**
2008	2,281	44.4%	957	18.6%	27	0.5%	1,867	36.4%		**5,132**
2009	2,412	54.2%	597	13.4%	26	0.6%	1,412	31.8%		**4,447**
2010	2,776	47.7%	589	10.1%	36	0.6%	2,420	41.6%		**5,821**
2011	2,821	44.7%	526	8.3%	21	0.3%	2,938	46.6%		**6,306**
2012	4,271	39.0%	621	5.7%	28	0.3%	6,032	55.1%		**10,952**
2013	5,207	41.9%	678	5.5%	19	0.2%	6,520	52.5%		**12,424**
2014	4,559	42.4%	684	6.4%	86	0.8%	5,414	50.4%		**10,743**
2015	4,746	37.1%	554	4.3%	43	0.3%	7,437	58.2%		**12,780**

Source: Metropolitan Council

The following tables provide additional information concerning the breakdown of residential building permits in Chanhassen and nearby communities over the last several years.

Multi-Family Permits								
	Chanhassen	Victoria	Chaska	Eden Prairie	Minnetonka	Shorewood	TOTAL	Multi-Family as % of Total
2005	0	0	105	85	39	0	229	23%
2006	0	5	106	10	0	0	121	17%
2007	10	0	6	0	52	0	68	12%
2008	12	0	58	0	0	0	70	22%
2009	0	0	0	0	0	0	0	0%
2010	0	0	0	0	150	0	150	34%
2011	0	0	0	0	0	0	0	0%
2012	0	0	54	0	64	0	118	19%
2013	25	0	0	191	0	0	216	27%
2014	24	0	0	0	100	0	124	18%
2015	0	0	138	0	511	0	649	59%
2016	76	0	0	0	154	105	335	43%
TOTAL	**147**	**5**	**467**	**286**	**1,070**	**105**	**2,080**	**27%**

Townhome or Duplex Permits								
	Chanhassen	Victoria	Chaska	Eden Prairie	Minnetonka	Shorewood	TOTAL	Townhome / Duplex as % of Total
2005	24	63	60	134	0	2	283	28%
2006	90	16	13	35	24	8	186	25%
2007	94	26	14	35	2	0	171	30%
2008	26	6	16	38	0	0	86	27%
2009	14	6	0	32	0	2	54	22%
2010	30	10	0	24	1	0	65	15%
2011	62	15	0	0	0	2	79	21%
2012	78	18	4	0	6	8	114	19%
2013	76	24	18	0	1	2	121	15%
2014	102	0	28	0	0	0	130	19%
2015	24	0	2	2	10	0	38	3%
2016	2	4	47	0	4	0	57	7%
TOTAL	**622**	**188**	**202**	**300**	**48**	**24**	**1,384**	**18%**

Source: Metropolitan Council

As the tables indicate, multi-family permits have increased as a percentage of all residential building activity in Chanhassen and the surrounding communities over the last four to five years. Over the last 12 years, multi-family has accounted for a total of 27 percent of all residential permits, across the six communities. The various communities issued a significant number of permits for townhomes or duplexes before and during the Great Recession, but this trend has subsided significantly over the last two to three years, with townhomes / condos accounting for only three percent of permits in 2015 and seven percent in 2016. The focus of residential development has clearly shifted to multi-family (apartment) development in the southwest suburbs and across the metro area.

The Chanhassen area has experienced a very strong housing market over the last few years. The local area benefits from good quality schools, good access to the rest of the metro area, and proximity to the employment centers located in Eden Prairie and along the 494 corridor in the south and west parts of the Twin Cities metro area.

The following table outlines the changes in home prices for Chanhassen and the nearby cities of Victoria, Chaska, Eden Prairie, Minnetonka, and Shorewood.

MEDIAN HOME PRICES						
	Chanhassen	Victoria	Chaska	Eden Prairie	Minnetonka	Shorewood
2008	$295,800	$396,250	$268,019	$382,732	$298,803	N/A
2009	$286,500	$324,900	$179,600	$306,000	$285,000	N/A
2010	$312,000	$374,695	$212,500	$240,250	$290,000	$287,000
2011	$295,000	$352,500	$170,000	$252,000	$235,000	$404,053
2012	$280,000	$341,990	$207,000	$257,000	$225,000	$414,900
2013	$303,500	$371,500	$252,000	$279,294	$279,000	$425,000
2014	$318,000	$369,990	$235,000	$300,000	$270,000	$382,500
2015	$325,000	$403,250	$255,000	$299,900	$300,000	$417,500
2016	$336,950	$423,018	$272,000	$309,000	$307,500	$453,250

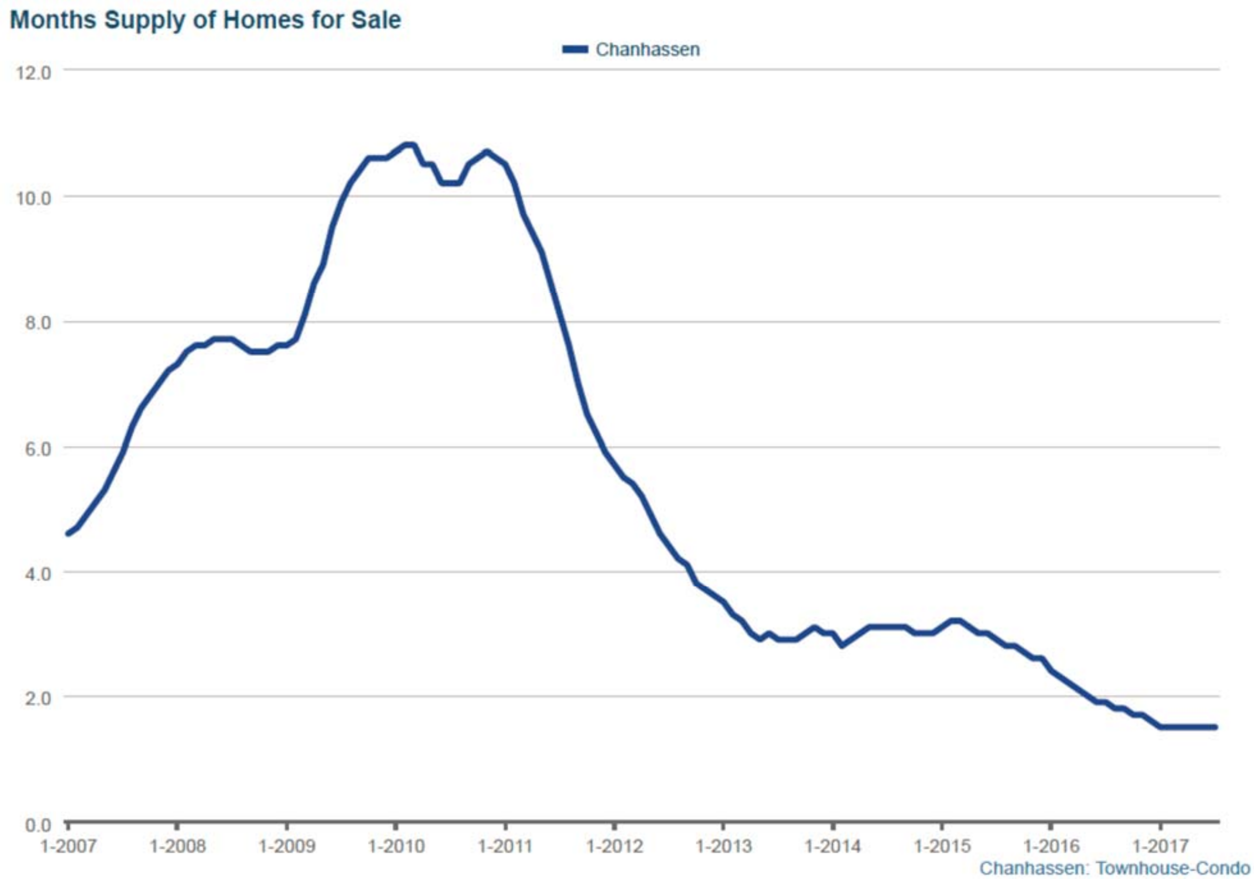
Source: Minneapolis Area Association of Realtors

The Chanhassen area has exhibited consistent growth in median home prices over the last five years, and the community reports the highest median sales price in this part of the metro, with the exception of Victoria and Shorewood.

As illustrated in the following chart, the median sales price for townhomes and condos in Chanhassen has recovered to pricing levels last seen before the Great Recession, following a significant decline from 2008 to 2012.

Source: Minneapolis Area Association of Realtors; Northstar MLS

The supply of homes, including townhomes and condominiums, has also declined significantly as the market has strengthened over the last five years, as illustrated in the following chart. The very limited supply of homes for sale, for all housing types, is causing significant price appreciation and is dissuading prospective home buyers from making purchases. The limited supply of housing units remains one of the key issues facing the housing industry as of Summer 2017.



Source: Minneapolis Area Association of Realtors; Northstar MLS

The Chanhassen area should remain highly attractive for both multi-family and for-sale residential products for the foreseeable future, given its orientation in the metro area. While the area may experience a softening in the market with the next downturn, the geographic advantages of Chanhassen relative to the rest of the metro area should continue to drive the viability of residential projects in the Chanhassen vicinity.

Anticipated or Potential Developments in the Local Market

Plans for potential new developments in the local market will impact the anticipated demand for the various types of land uses in the Downtown Chanhassen study area. The following outlines the components of a number of developments in the local market that may reach fruition over the next few years.

Avienda (Powers Boulevard and US 212)

The developers of Avienda have submitted three concepts for the development of a mixed use regional or "lifestyle" center at the northwest quadrant of the interchange between US 212 and Powers Boulevard, in Chanhassen, as part of an AUAR submittal associated with the project. The concepts include a range of approximately 179,000 to 436,500 square feet of retail, 150,000 to 163,000 square feet of office, 75 to 315 apartment homes, 38 to 80 twin homes, and a hotel ranging from 100 to 150 keys. Each of the three concepts include a larger scale retail box of 90,000 square feet. While each concept includes some traditional, in-line retail space, one of the options includes the arrangement of small retail pads into a "Main Street" orientation. The options include various scale of "junior box" retail tenants, as well. The overall scale of development between the three options for Avienda depend on how the developer would address environmental constraints presented by wetlands on the subject property. In any event, the scale of the potential Avienda development, located around 1.5 miles to the south of Downtown Chanhassen, has the potential to impact sales and performance of retail and office space in the Downtown district.

Elevate Apartments, Eden Prairie (Highway 212 and Prairie Center Drive)

Conceptual Rendering of Elevate Apartments: Source: Finance and Commerce, July 18, 2017

Elevate will develop as a 222-unit luxury apartment complex at the southwest quadrant of Prairie Center Drive and Highway 212, adjacent to the future location of a light rail stop on the Southwest light rail line. The project will include retail on the ground floor with apartment units on upper floors.

The project will emerge on the site of a vacant restaurant and vacant bank building in Eden Prairie, and construction is expected to be complete by 2019.

Prairie Bluffs Senior Living, Eden Prairie

This project will include 138 senior housing units in a complex near the junction of US 169 and Hennepin Town Road.

Source: City of Eden Prairie staff report

DEMAND PROJECTIONS

While market conditions change from year to year and as real estate conditions and preferences evolve over time, the analysis of the local and regional market for various land uses and demographic and economic projections provide the basis for demand projections for office, retail, and residential land uses in the Downtown Chanhassen study area, through 2035. The following provides a description of the demand projections for these land uses and the assumptions underlying these projections.

Office Demand Through 2035

Although the Downtown district has not added any office space over the last ten years and some of the office properties have vacancies as of Summer 2017, overall employment growth in Chanhassen and the surrounding area over the next few decades could stimulate some additional demand for office in the downtown district. The following table outlines two scenarios for the projection of office demand in the Downtown Chanhassen district between 2016 and 2035.

PROJECTED OFFICE DEMAND, DOWNTOWN CHANHASSEN					
	2016 - 2020	**2020 - 2025**	**2025 - 2030**	**2030 - 2035**	**TOTALS**
Forecast Employment Growth, Chanhassen (Met Council)	619	950	950	1,050	**3,569**
Estimated Change in Office Employment, Chanhassen	147	224	224	249	**844**
Office Demand Growth (@ 190 SF per employee), Chanhassen (in Square Feet)	27,930	42,560	42,560	47,310	**160,360**
Downtown Chanhassen (Capture Rate of City-Wide Office Growth) - Scenario 1	12%	12%	12%	12%	
Projected Growth in Office Demand, Downtown Chanhassen (from New Employees) - Scenario 1 (SF)	**3,352**	**5,107**	**5,107**	**5,677**	**19,243**
Downtown Chanhassen (Capture Rate of City-Wide Office Growth) - Scenario 2	25%	25%	25%	25%	
Projected Growth in Office Demand, Downtown Chanhassen (from New Employees) - Scenario 2 (SF)	**6,983**	**10,640**	**10,640**	**11,828**	**40,090**
Potential New Office Demand, 2016 - 2020 (SF)	**3,000 - 7,000**				
Potential New Office Demand, 2020 - 2025 (SF)	**5,000 - 11,000**				
Potential New Office Demand, 2025 - 2030 (SF)	**5,000 - 11,000**				
Potential New Office Demand, 2030 - 2035 (SF)	**5,500 - 12,000**				

Sources: Metropolitan Council, HKGi

The Metropolitan Council provides estimates for total employment growth for the 2016-2020, 2020-2025, 2025-2030, and 2030-2035 time periods, by community. The analysis calculates the anticipated change in employment, in terms of the numbers of employees requiring office space, based upon the existing breakdown of the employment base in the City of Chanhassen, and assumptions regarding the need for office space for different job or industry classifications. For example, jobs in the transportation or manufacturing industries would require less office space, on average, than professional services of government-based positions.

Office space in the Downtown Chanhassen area (to the north of Highway 5) represents around 12 percent of the total square footage of office space in the City of Chanhassen, as of Summer 2017. The first scenario assumes that, in line with this percentage, the Downtown district would capture 12 percent of office growth (tied to employment growth) in Chanhassen from 2016 through 2035. Scenario 1 would result in the addition of just under 20,000 square feet of additional office space in the downtown district during this time frame. A second scenario assumes that the Downtown district would play a more prominent role in attracting office uses to the Chanhassen area, over time. It assumes that the Downtown district would capture around 25 percent of all office growth in the city through 2035. Even with this more aggressive capture rate assumption, the Downtown would capture no greater than 40,000 additional square feet of office space from 2016 through 2035.

A scan of competing downtowns in the western suburbs indicates that these districts (Excelsior and Wayzata in particular) have primarily grown through the construction of additional residential space, as well as the refurbishment and repositioning of existing retail space, over the last ten years. Downtown Excelsior has added around 40,000 square feet of additional office space over the last eleven years, according to data from CoStar. The mixed use project associated with the new Kowalski's in Downtown Excelsior included a separate mixed-use building, to the north of Kowalski's, that contains 10,000 square feet of new office space on the second floor. The Oppidan developer group, which led the creation of the project, is using this second floor space for the company's offices. The downtown district also includes around 11,000 square feet of additional office space along Lake Street (at the north end of Downtown, near Lake Minnetonka) developed in the early 2000s. A two-story office building along the north side of Highway 7, developed in 2007, accounted for an increase of around 29,000 square feet of additional office space in the downtown area, as well. This complex primarily includes professional services tenants (including wealth management consultants) and a few small corporate offices, and was fully leased as of Summer 2017.

Data from CoStar indicate that although the downtown districts in Wayzata, Stillwater, and Chaska experienced various degrees of redevelopment over the last ten years, the quantity of office space in these districts changed very little. Downtown Wayzata and Downtown Stillwater have experienced growth in residential and hotel development over the last few years, and Downtown Chaska has experienced some growth in retail / restaurants as well. Mixed use projects in these downtowns have emphasized residential and retail components in recent years, as opposed to office.

The demand projections for potential additional office space in Downtown Chanhassen (of 20,000 to 40,000 square feet between 2016 and 2035) represent general approximations. The overall takeaway from the analysis is that redevelopment efforts in Downtown Chanhassen are more likely to focus on various forms of residential or retail, as opposed to office components. The Downtown has not represented a significant area of office space in the past and primarily serves local needs (in the form of medical office space, for example). The Downtown could change course and potentially support a larger quantity of office space in the future. However, a significant uptick in office development in Downtown Chanhassen would likely result from a change in the overall look, feel, and dynamic of the downtown district. A downtown that offers a variety of amenities for employees (including a variety of restaurants and some entertainment options) in a compelling setting, would likely increase the market potential for office space in Downtown Chanhassen over time. The creation of a downtown with attractive gathering places, popular sit down restaurants, and a variety of retail shops, for example, would position the district to better attract mid-size companies looking for office space. Increasingly, companies are seeking out office spaces that feature additional services and amenities, in order to attract employees. Creating a more compelling downtown would help attract interest in living – and working – in Downtown Chanhassen as opposed to occupying offices in scattered suburban office parks.

The development of office space at Avienda could impact the potential to develop and fill office space in the Downtown Chanhassen area, as well. The demand calculation on the previous page indicated that, in theory, the City of Chanhassen could support the development of an additional 160,000 square feet of office space from 2016 to 2035. The potential development concepts included in the AUAR report for Avienda indicated that the project could include from 150,000 to 160,000 square feet of office space, nearly equal to the projection for the entire city of Chanhassen (for the 2016 to 2035 period). However, the Avienda project is more likely to attract office demand from a broader market, stretching from Chaska to Eden Prairie, given the adjacency of the project to the Highway 212 freeway corridor, as opposed to absorbing demand that would have been absorbed elsewhere in Chanhassen. However, the development of the Avienda project and its office component could limit the overall demand for office space in Downtown and other parts of Chanhassen over the next few decades. In order to maximize development potential, projects including office components in Downtown Chanhassen would have to integrate elements to distinguish the district from the Avienda project and other potential competitors in this portion of the metro area.

Multi-Family Demand Through 2035

Historical and projected data concerning multi-family permits and construction and overall household growth in Chanhassen and the surrounding communities in the southwest part of the metro area inform projections for potential multi-family development in the Downtown Chanhassen area. The projections incorporate a range of potential multi-family units in the Downtown area.

PROJECTED MULTI-FAMILY GROWTH, SCENARIO 1					
	2016 - 2020	**2020 - 2025**	**2025 - 2030**	**2030 - 2035**	**TOTALS**
Local Area Growth in Households (Chanhassen, Victoria, Chaska, Eden Prairie, Minnetonka, Shorewood)	5,538	5,190	5,190	4,910	**20,828**
Percentage of New Households in Multi-Family Units	25%	25%	25%	25%	
Total Projected Growth in Multi-Family Units (6 cities)	1,385	1,298	1,298	1,228	**5,209**
City of Chanhassen, Share of Multi-Family Growth	15%	15%	15%	15%	
Projected Multi-Family Units, City of Chanhassen	208	195	195	184	**782**
Downtown Chanhassen, Share of City Multi-Family Growth	15%	15%	15%	15%	
Projected Downtown Chanhassen Multi-Family Growth	**31**	**29**	**29**	**28**	**117**

PROJECTED MULTI-FAMILY GROWTH, SCENARIO 2					
	2016 - 2020	**2020 - 2025**	**2025 - 2030**	**2030 - 2035**	**TOTALS**
Local Area Growth in Households (Chanhassen, Victoria, Chaska, Eden Prairie, Minnetonka, Shorewood)	5,538	5,190	5,190	4,910	**20,828**
Percentage of New Households in Multi-Family Units	40%	40%	40%	40%	
Total Projected Growth in Multi-Family Units (6 cities)	2,215	2,076	2,076	1,964	**8,331**
City of Chanhassen, Share of Multi-Family Growth	25%	25%	25%	25%	
Projected Multi-Family Units, City of Chanhassen	554	519	519	491	**2,083**
Downtown Chanhassen, Share of City Multi-Family Growth	25%	25%	25%	25%	
Projected Downtown Chanhassen Multi-Family Growth	**139**	**130**	**130**	**123**	**522**

Sources: Metropolitan Council, HKGi

Both scenarios consider the projections for overall household growth in the six communities of Chanhassen, Victoria, Chaska, Eden Prairie, Minnetonka, and Shorewood, provided by the Metropolitan Council, for the 2016 through 2035 period. Historical data indicate that multi-family permits in the six communities (combined) accounted for 27 percent of all residential permits for the 2005 through 2016 period, and for 36 percent of all residential permits for the 2012 through 2016 period. Scenarios 1 and 2 consider assumptions that multi-family permits will account for either 25 percent or 40 percent of all residential permits through 2035, respectively, to reflect this historical pattern. Scenario 1 reflects a conservative projection that would account for a rate of multi-family permits slightly lower than the historical averages and Scenario 2 reflects the potential for the multi-family market to exceed its historical averages in this part of the metro area and to account for a larger share of the residential market. As a result of these calculations, Scenarios 1 and 2 project a range of 5,209 to 8,331 multi-family permits in the six communities over the 2016 to 2035 time period.

The two scenarios then consider two varying assumptions regarding the share of multi-family permits anticipated in the City of Chanhassen (overall, including the Downtown area and all neighborhoods in the community). The City of Chanhassen accounted for just under 20 percent of household growth in the six communities over the 2010 to 2016 time period. The projections from Metropolitan Council assume that Chanhassen will account for around 18 percent of household growth for the 2016 to 2040 time period. The two scenarios, then, utilize a low estimate that Chanhassen will account for 15 percent of multi-family growth (for the 2016 to 2035 time period) in Scenario 1, and a higher estimate that Chanhassen will account for 25 percent of multi-family growth, in Scenario 2. Based upon these two Scenarios, the City of Chanhassen will record a range of 782 to 2,083 multi-family permits over the 2016 to 2035 time period.

Finally, the two scenarios consider varying assumptions in order to project the number of multi-family units anticipated in the Downtown Chanhassen area over the 2016 to 2040 area. The overall Downtown Chanhassen area, including both areas to the north and south of Highway 5, recorded a total of 400 new multi-family units over the 2000 to 2016 time period, compared to a total of over 2,100 new multi-family units in the overall City of Chanhassen during this same time period. Therefore, Downtown accounted for roughly one fifth of the total multi-family units developed in Chanhassen over the last 17 years. Scenario 1 assumes that the Downtown will slightly underperform this historical average and account for 15 percent of all multi-family units in Chanhassen over the 2016 to 2040 time period. In contrast, Scenario 2 assumes that the Downtown will exceed the historical averages and account for 25 percent of multi-family permits in the city during the same period.

Scenario 1 and Scenario 2, then, produce the following range of projected multi-family units in Downtown Chanhassen.

Projected Multi-Family Growth, Downtown Chanhassen	**Scenario 1**	**Scenario 2**
2016 - 2020	31	139
2020 - 2025	29	130
2025 - 2030	29	130
2030 - 2035	28	123
TOTAL	**117**	**522**

Scenario 1 incorporates the most conservative assumptions, in all cases, and Scenario 2 incorporates the most optimistic assumptions, in all cases. The two Scenarios produce a range of anticipated multi-family unit growth in Downtown Chanhassen of 117 to 522 units from 2016 to 2035, with a breakdown by five year period provided in the table above.

The projections for multi-family units in Downtown Chanhassen would include and account for the 130 unit apartment complex currently proposed in the downtown area (in conjunction with a new Aldi store). Therefore, in theory, the projections indicate that the future demand for multi-family units in Downtown through 2035 may range from zero additional units, to just under 400 additional units (assuming that the total potential going forward would include the current proposal for a 130-unit complex). The likely demand for additional multi-family units and multi-family projects in Downtown Chanhassen may favor the upper portion of this range, given the following factors:

- The development of a successful apartment project in conjunction with a new Aldi store may provide validity in the local market, regarding the potential to successfully develop multi-family in the heart of Downtown Chanhassen. The mixed-use Aldi project, then, would provide momentum for further multi-family development in Downtown Chanhassen. It could also provide validity for the concept of vertically mixed-use projects in the Downtown district, in which upper floors contains residential uses and the first floor includes retail uses.
- The creation or development of enhanced public and gathering spaces in Downtown Chanhassen could make the district more attractive to multi-family developers. For example, the creation of a traditional "Main Street" development with attractive streetscape and the inclusion of unique restaurants or retailers may make the district more attractive to prospective residents. Creating an environment that would distinguish Downtown Chanhassen from other downtowns in Chaska, Victoria, and Eden Prairie, for example, would make the district more marketable from a multi-family perspective.
- Developers considering redevelopment options in the Downtown district over the next few decades may consider including multi-family components in order to provide for greater density and, as a result, greater financial return, compared to traditional suburban development. A developer may find that including multi-family above retail spaces, for example, could diversify the real estate program and add to the return of a particular project.
- Chaska, Eden Prairie, and Chanhassen have relatively smaller areas of open lands remaining on which to develop single family homes. Therefore, the population and household growth in these three communities over the next few decades may more logically focus on the creation of multi-family projects, either on smaller parcels or on infill parcels remaining in these three communities. Downtown Chanhassen enjoys relatively good connectivity, via Highway 5 and Highway 212, to the southwest metro area, and this central location may enhance the potential for multi-family development in the district over the next few decades.

Importantly, in order to maximize the benefit of adding residents to the Downtown area and to provide momentum for ongoing multi-family development, the community should work with applicants to ensure that new multi-family projects meet certain design criteria in order to create a sense of place and quality in Downtown Chanhassen.

Retail Demand Growth Through 2032 (Next 15 Years)

Demand for retail space results from a number of factors, including 1) anticipated population growth, 2) anticipated growth in per capita income over a particular period of time, and 3) changes in anticipated rates of capture of the potential market for a particular good or service (or, category of good or service).

The analysis utilized anticipated projections for population and income growth provided by ESRI for the local retail trade area surrounding Downtown Chanhassen, as outlined in the map on Page 12, for the 2017 – 2022 time frame. This trade area includes the local areas generally within a ten minute drive of Downtown Chanhassen, mainly between the southern edge of Lake Minnetonka and the Highway 212 corridor. The analysis then extrapolated the projections for income and population growth to extend to the 2022 – 2027 and 2027-2032 time frames.

The combination of per capita income and population in a given trade area results in the calculation of Total Personal Income (TPI). Data from ESRI indicate the percentage of TPI that is spent on various categories of retail (including general merchandise, grocery stores, restaurants, and a variety of other categories). The analysis used these percentages, along with assumptions regarding the anticipated sales per square feet for various retail categories, to determine the anticipated growth in square footage within the local retail trade area, by five year period. Finally, the analysis utilized two scenarios to determine the portion of growth of local retail trade anticipated to be accommodated within Downtown Chanhassen. These assumptions regarding the capture rates of retail for Downtown Chanhassen were derived from data concerning the existing capture rates for Downtown Chanhassen (as a percentage of the total sales in the local retail trade area) and adjusted to create a "low" and a "high" scenario for growth. The following provides a summary of the anticipated growth in retail square footage in Downtown Chanhassen, by five year period.

POTENTIAL ADDITIONAL RETAIL SQUARE FOOTAGE	**2017 - 2022**			**2022 - 2027**			**2027 - 2032**	
	Scenario 1	**Scenario 2**		**Scenario 1**	**Scenario 2**		**Scenario 1**	**Scenario 2**
Downtown Chanhassen	78,602	175,737		78,551	184,602		78,499	193,915

Source: HKGi

The following provides additional guidance regarding the retail potential for various types of retail in Downtown Chanhassen, tied to the overall demand projection above.

- Over the next fifteen years, the Downtown district has the potential to support, at the very least, a smaller grocery store such as an Aldi location. Under Scenario 2, over fifteen years, the district has the potential to support at least one additional, full size grocery store, based upon the various assumptions incorporated in the demand model.

- Downtown should be able to support one to two additional sit down restaurants, every five years, over the next fifteen years.
- Downtown has the potential, in particular, to support additional square footage in the categories of Health and Personal Care Stores; and, Sporting Goods and Hobby Stores.
- In particular, according to the demand calculations, Downtown should be able to support an additional general merchandise store (such as a Walmart or Target) over the next 15 years, given its good location within the southwest suburban area.
- Demand from individuals who do not live in the local retail trade area, but work in the general vicinity of Downtown Chanhassen, could increase demand for retail in the downtown vicinity. Demand from employees in the local area would in particular support ongoing demand for restaurants and drinking places.

The overall growth in incomes and population in the surrounding area should support the development of a net increase in retail square footage in Downtown Chanhassen over the next fifteen years. However, the entrance into the market of additional developments (along Highway 5, for example) could modify or reduce the demand anticipated for retail space in Downtown Chanhassen over time. Overall, the entrance of the Avienda project (including a few hundred thousand square feet of retail) could impact the performance of retail in the Downtown area. However, the overall growth of populations and incomes in the local trade area over the next fifteen years should continue to support the growth of some additional retail space in Downtown Chanhassen.

Overall Conclusions

- The ongoing projected growth in incomes and population in the local area, coupled with trends favoring the creation of multi-family housing, should support an ongoing demand for additional multi-family development in the Downtown area. Multi-family projects in the Downtown area could include traditional, market rate projects, as well as senior housing projects geared to the significant population of Baby Boomers in the southwest part of the metro area. Adding more residents to the Downtown area will also help to support demand for particular forms of retail in the Downtown area (including restaurants and neighborhood-serving retail uses such as grocery). The Downtown has the ability to successfully absorb the currently proposed apartment project (of 130 units) in Downtown Chanhassen, as well as additional development over the next fifteen years.
- The Downtown has the potential to gain an additional, but relatively modest, amount of office space over the next fifteen years. The creation of a true sense of place and a Downtown “feel” in Downtown Chanhassen, as well the creation of key amenities and services geared to employees, would further enhance demand for office in the Downtown district.
- Based upon regional projections for growth, the Downtown has the potential to increase the scale of retail development over time. Again, the pursuit of placemaking strategies could

enhance and strengthen the demand for retail, across various categories, over the next 15 years. While the Avienda project may deflect some demand from the Downtown area, the bigger issue for Downtown Chanhassen will likely concern how the district can distinguish itself from competing downtowns in the southwest metro and therefore enhance its capture rate of retail demand, over time.

The information contained in this market scan will inform the creation of ideas and concepts for the update to Downtown Chanhassen vision, during Fall 2017.