October 22, 2014

MEMORANDUM

TO: Mr. Peter Musty
Peter Musty LLC

FROM: Mr. Joe Hollman
Maxfield Research Inc.

RE: Market Potential Analysis for the Wooddale/Valley View Small Area Plan Study Area in the City of Edina, Minnesota

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Introduction/Purpose and Scope of Research

This memorandum provides an assessment of the market support for various real estate types in the Wooddale/Valley View Small Area Plan Study Area in Edina, Minnesota. Uses evaluated include general occupancy multifamily housing, senior housing, and commercial (office and retail). The scope of this study includes: an analysis of the demographic and economic characteristics of the Market Area; a review of rental market conditions in the area; a review of the for-sale multifamily housing market; a senior housing supply and demand analysis; and an analysis of the development potential for commercial uses (office and retail).

The methodology used to calculate demand in this memorandum is proprietary to Maxfield Research but is consistent with methodologies used by analysts throughout the real estate industry. It is important to note that demand estimates and conclusions contained herein are preliminary, and are intended only to broadly assess the depth of demand for housing and commercial uses in the market area and to determine whether additional housing products and commercial space could be supported in the Study Area. A more thorough investigation of the unique characteristics of the draw area and potential development site locations, outlined in a *Full Feasibility Study*, would reveal more specific factors that would impact demand and appropriate market positioning for potential housing and commercial developments in the Wooddale/Valley View Study Area.

Demographic & Economic Analysis

Demographic characteristics and trends are an important component in assessing the housing and commercial needs of any given market area. This section of the report begins by delineating the draw area for housing and commercial products in the Study Area and examines the demographic and economic characteristics of the draw areas as they relate to demand for specific housing products as well as commercial goods and services.

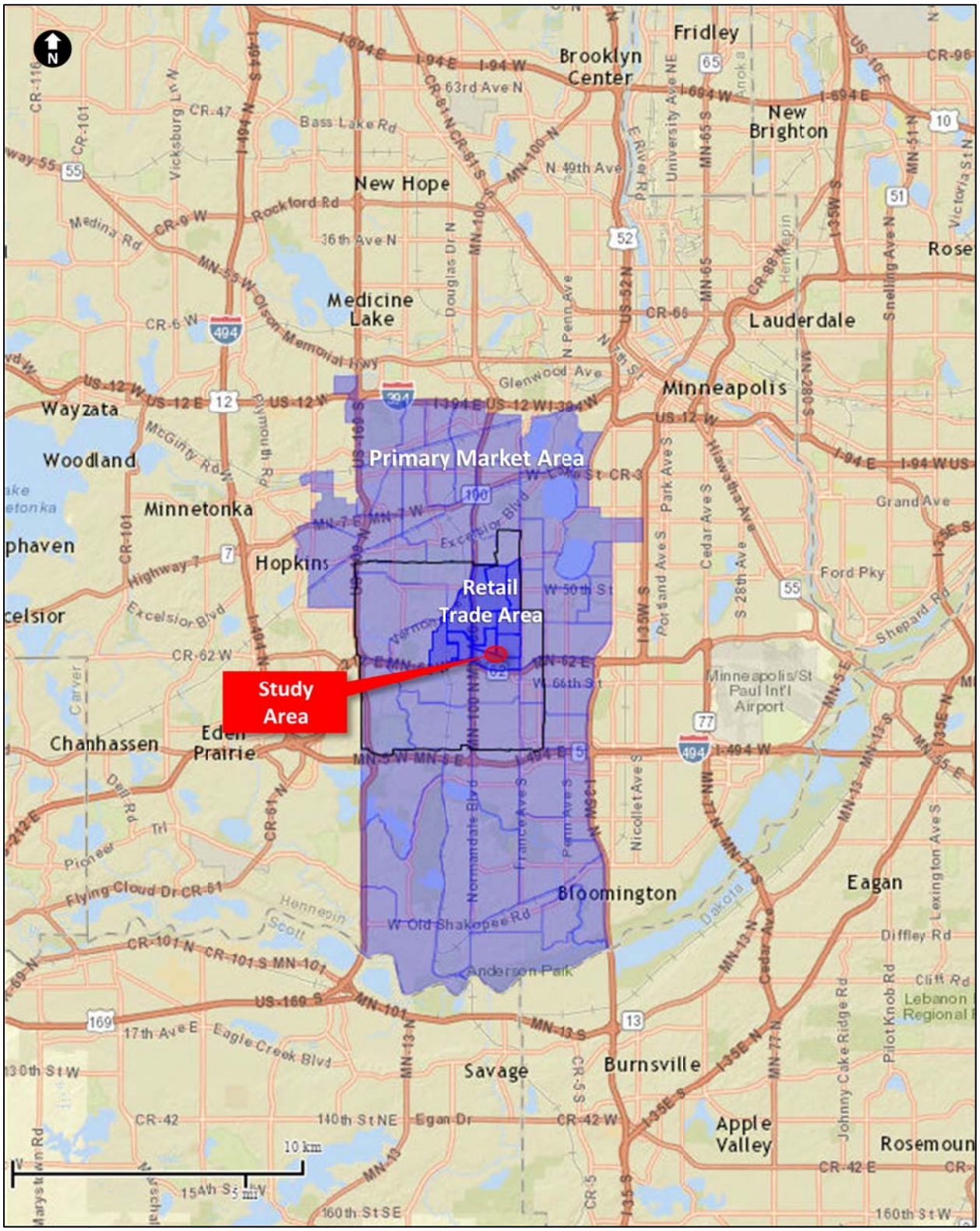
Market Area Definition

The draw area or "Primary Market Area" for housing products in the Study Area was determined based on geographic and man-made boundaries, commuting patterns, community orientation, places of employment, and our experience in housing feasibility. Considering these factors, we determined a Primary Market Area (PMA) for general occupancy multifamily and senior housing to be an aggregation of Census Tracts comprising the Cities of Edina, St. Louis Park, and Hopkins. We also include Census Tracts in the southwestern portion of Minneapolis, as well as the areas of Bloomington and Richfield situated west of I-35W.

Due to factors such as accessibility, traffic volumes, and visibility of the Study Area, we anticipate that the draw area for commercial goods and services will be neighborhood-oriented and will be smaller than the Primary Market Area for housing. As such, we also established a "Retail Trade Area" submarket. Based, in large part, on discussions with Study Area business and property owners, as well as our knowledge of the local market, we determined that the Retail Trade Area submarket is comprised of the Census Block Groups surrounding the Study Area. The Retail Trade Area can loosely be defined as the portion of Edina west of France Avenue, east of Highway 100, north of Highway 62, and south of 50th Street. We also include an area west of Highway 100 and east of Tracy Avenue and between Vernon Avenue and Highway 62 in the Retail Trade Area, as households in that portion of Edina have relatively convenient access to the Study Area via the Benton Avenue Bridge over Highway 100.

The map on the following page depicts the Wooddale/Valley View Primary Market Area for multifamily housing products along with the Retail Trade Area submarket in relation to the Study Area, the City of Edina, nearby communities, and the major transportation corridors in the area.

Wooddale/Valley View Study Area
Primary Market Area & Retail Trade Area



Population and Household Growth Trends

Table 1 presents population and household growth trends in the Market Area from 2000 to 2030. The 2000 and 2010 population and household figures were obtained from the U.S. Census Bureau. The 2014 estimate and projections for 2020 and 2030 were based on data provided by ESRI (a nationally recognized demographics firm) and the Metropolitan Council. The following are key points from Table 1.

- As of 2010, the City of Edina contained 47,941 people and 20,672 households. Between 2000 and 2010, the population increased 1.1% while the number of households declined roughly -1.5%. Within Edina, the Retail Trade Area experienced 3.7% population growth against 0.8% growth in households. Population growth outpaced household growth, suggesting a trend toward increasing household sizes in Edina. During this same time period, the PMA population decreased -1.0% against a -0.5% decline in households.

- We estimate that Edina's population increased 1.4% to 48,626 between 2010 and 2014 while the PMA population grew 1.9% to 222,364. The pace of population and household growth increased in recent years as residential development activity in Edina and adjacent communities has been escalating since 2010.

TABLE 1
POPULATION AND HOUSEHOLD GROWTH TRENDS AND PROJECTIONS
WOODDALE/VALLEY VIEW MARKET AREA
2000 - 2030

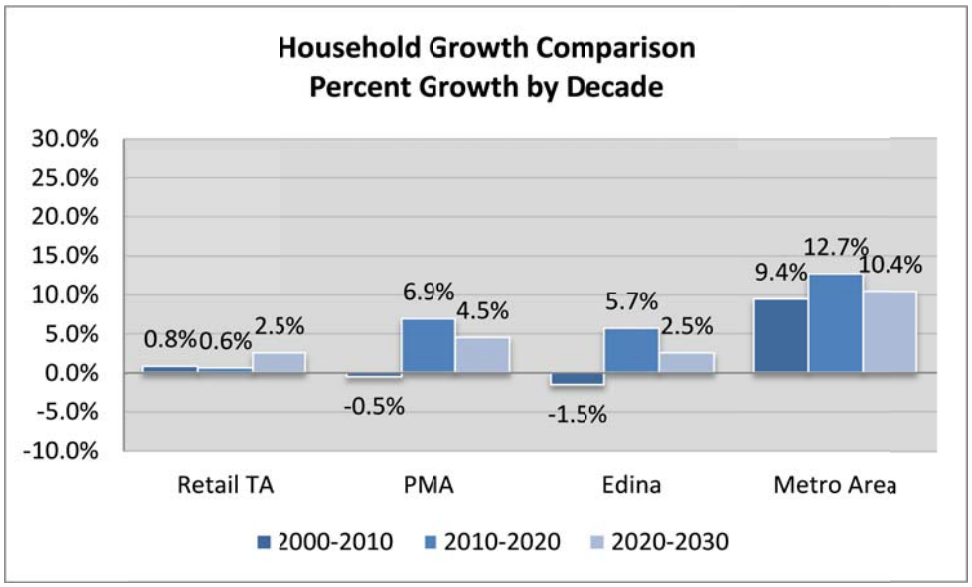
	Census		Estimate	Forecast		Change			
						2000-2010		2010-2020	
	2000	2010	2014	2020	2030	No.	Pct.	No.	Pct.
Population									
Retail Trade Area	**11,751**	**12,181**	**12,059**	**12,273**	**12,432**	**430**	**3.7%**	**92**	**0.8%**
Primary Market Area	**220,487**	**218,214**	**222,364**	**231,886**	**242,426**	**-2,273**	**-1.0%**	**13,672**	**6.3%**
City of Edina	47,425	47,941	48,626	50,504	51,800	516	1.1%	2,563	5.3%
Remainder of PMA	*173,062*	*170,273*	*173,738*	*181,382*	*190,626*	*-2,789*	*-1.6%*	*11,109*	*6.5%*
Twin Cities Metro Area*	2,642,062	2,849,567	2,968,000	3,123,430	3,395,060	207,505	7.9%	273,863	9.6%
Households									
Retail Trade Area	**4,411**	**4,448**	**4,400**	**4,475**	**4,588**	**37**	**0.8%**	**27**	**0.6%**
Primary Market Area	**99,692**	**99,162**	**101,438**	**106,027**	**110,789**	**-530**	**-0.5%**	**6,865**	**6.9%**
City of Edina	20,996	20,672	21,015	21,849	22,400	-324	-1.5%	1,177	5.7%
Remainder of PMA	*78,696*	*78,490*	*80,423*	*84,178*	*88,389*	*-206*	*-0.3%*	*5,688*	*7.2%*
Twin Cities Metro Area*	1,021,456	1,117,749	1,154,100	1,259,450	1,390,990	96,293	9.4%	141,701	12.7%

*Includes the 7-County Area (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties)

Sources: US Census Bureau; ESRI; Metropolitan Council; Maxfield Research, Inc.

- Between 2010 and 2030, the Twin Cities Metro Area population is projected to grow 19.1% while the number of households increases 24.4%. The Metropolitan Council projects that much of this growth will be concentrated in the core cities of Minneapolis and St. Paul and the inner-ring suburbs as transportation costs and shifting lifestyle preferences increase the desirability of living close to employment and entertainment opportunities. As such, we anticipate that Edina and the communities comprising the PMA will also experience solid growth.

- The PMA population is expected to grow 11.1% while the number of households increases 11.7% between 2010 and 2030. Edina is projected to grow at a slightly slower pace, experiencing 8.0% growth in population and 8.4% household growth.

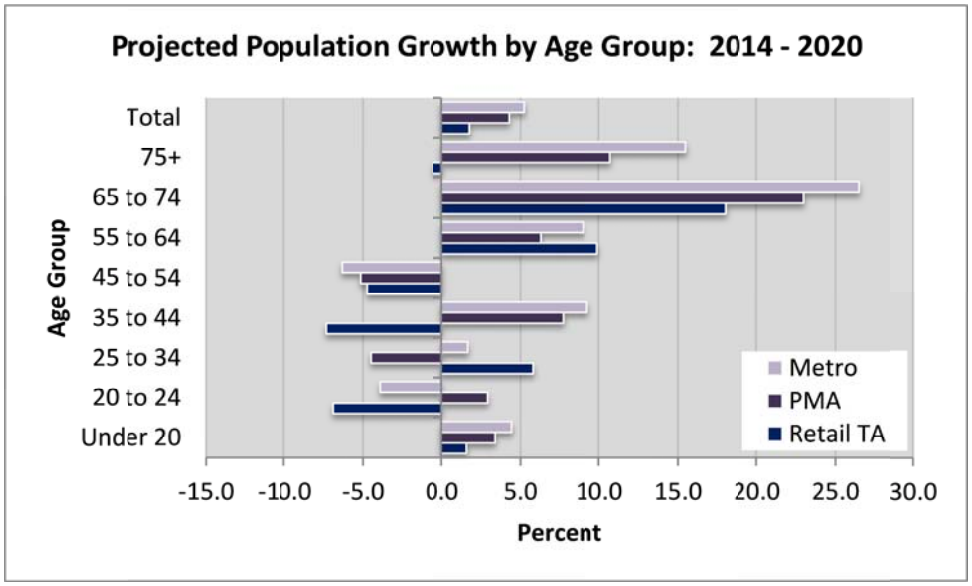


Age Distribution

The age distribution of a community's population helps in assessing the type of housing and commercial services needed. For example, younger and older people are more attracted to higher density housing located near urban services and entertainment while middle-aged people (particularly those with children) traditionally prefer lower-density single-family homes. Also, younger people are more likely to seek a variety of retail services including entertainment, electronics and specialty apparel. Child stores increase in popularity for the 25 to 34 and 35 to 44 cohorts while home furnishings are more frequently sought by the 45 to 54 and 55 to 64 age groups. Table 2 presents the age distribution of the Market Area population from 2000 to 2020. For this analysis, we compare the age distribution of the Retail Trade Area with the PMA and the Twin Cities Metro Area. Information from 2000 and 2010 is sourced from the U.S. Census. The 2014 estimates and projections for 2020 were calculated by Maxfield Research Inc. based on information from the Metropolitan Council and ESRI, a reputable national demographics firm.

- In 2010, the largest adult cohort by age in the PMA was 25 to 34 (i.e. households that are likely to have children), totaling 35,166 people (16.1% of the total population). This age group is projected to decline -4.5% between 2014 and 2020 for a loss of –1,496 people in the PMA.

- In the Retail Trade Area, the 45 to 54 age group was the largest adult cohort, with 2,169 people in 2010 (17.8% of the total population). This cohort is projected to decline -4.7% between 2014 and 2020. Similarly, the 45 to 54 cohort is the largest age group in the Twin Cities Metro Area, representing 15.5% of the total population, and a -6.3% decline is expected between 2014 and 2020.



- Greatest growth is projected to occur among the older adults in the Market Area. Aging of baby boomers led to an increase of 7,864 people (+38.3%) in the 55 to 64 population between 2000 and 2010 in the PMA. As this group ages, all cohorts age 55 or greater are expected to see increases over the next several years, particularly the 65 to 74 age group which is projected to grow 18.0% in the Retail Trade Area, 23.0% in the PMA, and 26.5% in the Metro Area.

- The 35 to 44 age group is also expected to experience notable growth over the next five years, increasing 7.7% in the PMA and 9.3% in the Metro Area. However, a -7.3% decline in this cohort is anticipated in the Retail Trade Area, while the 25 to 34 age group experiences a modest gain (+5.8%).

- The Market Area is expected to see a decline in the middle aged cohorts between 2014 and 2020. The 45 to 54 age cohort is expected to decline -4.7% in the Retail Trade Area, -5.1% in the PMA and -6.3% in the Metro Area.

- The weak growth projected for the middle aged population is a result of the comparatively small number of people who will move into those age cohorts between 2014 and 2020, a phenomenon known as the "baby bust." The "baby bust" is often referred to the generation of children born between 1965 and 1980, an era when the United States birthrate dropped sharply.

TABLE 2
AGE DISTRIBUTION
WOODDALE/VALLEY VIEW MARKET AREA
2000 - 2020

	Census		Estimate	Projection	Change			
					2000-2010		2014-2020	
Age	2000	2010	2014	2020	No.	Pct.	No.	Pct.
Retail Trade Area								
Under-20	3,582	3,893	3,856	3,917	311	8.7	61	1.6
20 to 24	258	312	465	433	54	20.9	-32	-6.9
25 to 34	928	773	672	711	-155	-16.7	39	5.8
35 to 44	2,131	1,718	1,424	1,320	-413	-19.4	-104	-7.3
45 to 54	1,932	2,169	2,049	1,952	237	12.3	-97	-4.7
55 to 64	1,102	1,544	1,684	1,851	442	40.1	167	9.9
65 to 74	944	881	1,028	1,213	-63	-6.7	185	18.0
75+	874	891	881	876	17	1.9	-5	-0.6
Total	**11,751**	**12,181**	**12,059**	**12,273**	**430**	**3.7**	**214**	**1.8**
Primary Market Area								
Under-20	47,760	47,844	48,740	50,391	84	0.2	1,651	3.4
20 to 24	12,280	11,605	12,396	12,758	-675	-5.5	362	2.9
25 to 34	36,390	35,166	33,183	31,687	-1,224	-3.4	-1,496	-4.5
35 to 44	35,802	28,467	28,007	30,166	-7,335	-20.5	2,159	7.7
45 to 54	32,952	32,509	31,088	29,488	-443	-1.3	-1,600	-5.1
55 to 64	20,551	28,415	30,464	32,377	7,864	38.3	1,913	6.3
65 to 74	16,140	16,067	19,632	24,144	-73	-0.5	4,512	23.0
75+	18,612	18,141	18,854	20,875	-471	-2.5	2,021	10.7
Total	**220,487**	**218,214**	**222,364**	**231,886**	**-2,273**	**-1.0**	**9,522**	**4.3**
Twin Cities Metro Area								
Under-20	768,028	774,287	780,892	815,545	6,259	0.8	34,653	4.4
20 to 24	173,732	190,135	207,431	199,281	16,403	9.4	-8,150	-3.9
25 to 34	411,155	420,311	427,741	434,827	9,156	2.2	7,085	1.7
35 to 44	469,324	391,324	390,442	426,680	-78,000	-16.6	36,237	9.3
45 to 54	363,592	440,753	425,970	399,055	77,161	21.2	-26,915	-6.3
55 to 64	200,980	326,007	373,860	407,367	125,027	62.2	33,507	9.0
65 to 74	130,615	163,425	209,310	264,751	32,810	25.1	55,441	26.5
75+	124,630	143,325	152,353	175,924	18,695	15.0	23,571	15.5
Total	**2,642,056**	**2,849,567**	**2,968,000**	**3,123,430**	**207,511**	**7.9**	**155,430**	**5.2**

Sources: U.S. Census Bureau; ESRI; Maxfield Research, Inc.

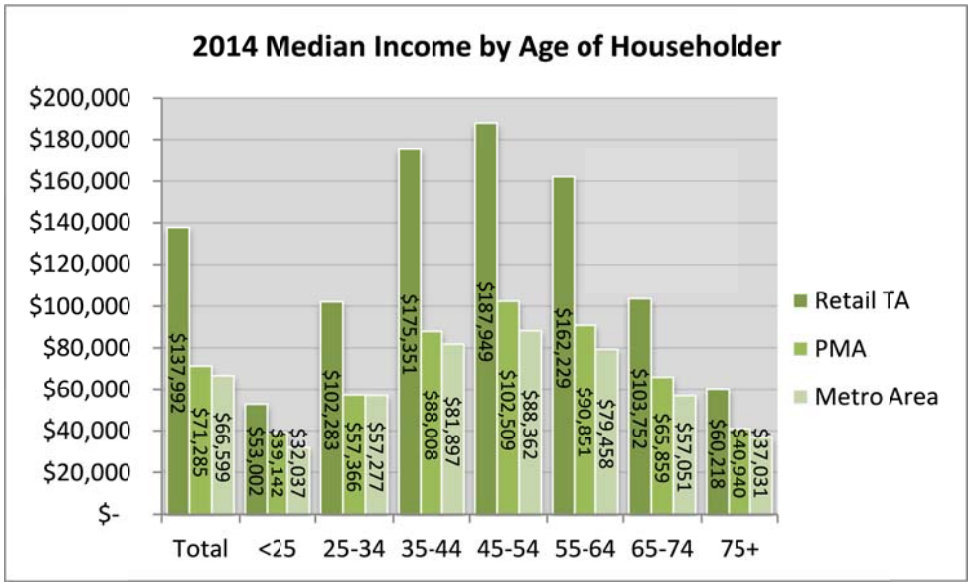
Household Income

Household income data helps ascertain demand for different types of retail services. People with lower incomes are likely to seek out discount retailers and spend a higher proportion of their income on necessities like grocery items. Retail services and goods such as dining and home furnishings will experience higher spending from more moderate-income households while upper income households will also shop for specialty apparel, recreation and sporting goods, and luxury items. This data also helps determine demand for different types of owned and rented housing based on the size of the market at specific cost levels. In general, housing costs of up to 30 percent of income are considered affordable by the Department of Housing and Urban Development (HUD).

The next two tables present data on household income by age of householder in 2014 and 2020 for the Retail Trade Area and the PMA. The data is estimated by ESRI, a nationally recognized demographic services firm, and adjusted by Maxfield Research Inc. to reflect the most current local household estimates and projections. The following are key points.

- In 2014, the median household income is estimated to be approximately $137,992 in the Retail Trade Area and $71,285 in the PMA compared to $66,599 in the Twin Cities. As such, it appears that Market Area residents are relatively affluent compared to the Metro Area and have more resources to devote toward housing and retail goods than residents elsewhere in the Metro Area.

- As households age through the lifecycle, their household income tends to peak in their late 40s and early 50s. This trend is evident throughout the Market Area as the age 45 to 54 cohort has the highest estimated income at $187,949 in the Retail Trade Area and $102,509 in the PMA.



- By 2020, the median household income is projected to increase 29% to $177,961 in the Retail Trade Area and 24% in the PMA to $86,910. The average annual increase (4.8% in the Retail Trade Area and 3.7% in the PMA) will exceed the historical annual inflation rate of 2.4% over the past ten years.

- In the Retail Trade Area, the 65 to 74 and 55 to 64 age cohorts are projected to experience the largest increases in households between 2014 and 2020, rising 17.3% (+108 households) and 8.7% (+87 households), respectively. The 25 to 34 age group is also projected to grow modestly (+3.3%). Median incomes in these three age groups are expected to climb significantly, suggesting that there will be a growing opportunity for retail goods and services catering to these age groups.

TABLE 3
HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER
RETAIL TRADE AREA
2014 & 2020

		Age of Householder						
	Total	**<25**	**25-34**	**35-44**	**45-54**	**55-64**	**65 -74**	**75+**
2014								
Less than $15,000	126	1	4	11	35	33	14	28
$15,000 to $24,999	144	5	7	19	33	29	22	29
$25,000 to $34,999	169	1	17	15	22	23	33	58
$35,000 to $49,999	245	2	21	28	29	20	44	101
$50,000 to $74,999	411	3	35	33	30	42	83	185
$75,000 to $99,999	432	2	50	66	45	85	101	83
$100,000 or more	2,873	5	142	540	944	770	327	145
Total	**4,400**	**19**	**276**	**712**	**1,138**	**1,002**	**624**	**629**
Median Income	**$137,992**	**$53,002**	**$102,283**	**$175,351**	**$187,949**	**$162,229**	**$103,752**	**$60,218**
2020								
Less than $15,000	92	1	3	8	21	22	14	23
$15,000 to $24,999	82	1	7	14	16	17	11	16
$25,000 to $34,999	97	0	10	9	10	10	21	37
$35,000 to $49,999	178	1	17	14	12	14	31	89
$50,000 to $74,999	319	6	28	16	17	20	71	161
$75,000 to $99,999	375	2	42	43	35	66	101	86
$100,000 or more	3,332	4	178	552	964	940	483	211
Total	**4,475**	**15**	**285**	**656**	**1,075**	**1,089**	**732**	**623**
Median Income	**$177,961**	**$69,006**	**$138,957**	**$205,624**	**$202,566**	**$203,391**	**$147,290**	**$74,469**
Change 2014 - 2020								
Less than $15,000	-34	0	-1	-3	-14	-11	0	-5
$15,000 to $24,999	-62	-4	0	-5	-17	-12	-11	-13
$25,000 to $34,999	-72	-1	-7	-6	-12	-13	-12	-21
$35,000 to $49,999	-67	-1	-4	-14	-17	-6	-13	-12
$50,000 to $74,999	-92	3	-7	-17	-13	-22	-12	-24
$75,000 to $99,999	-57	0	-8	-23	-10	-19	0	3
$100,000 or more	459	-1	36	12	20	170	156	66
Total	**75**	**-4**	**9**	**-56**	**-63**	**87**	**108**	**-6**
Median Income	**$39,969**	**$16,004**	**$36,674**	**$30,273**	**$14,617**	**$41,162**	**$43,538**	**$14,251**

Sources: ESRI; US Census Bureau; Maxfield Research Inc.

- Household growth is expected to occur in the upper-income brackets, as the number of households with incomes of $100,000 or higher grows 16% (+459 households). A -25% decline in the number of households with incomes below $100,000 is expected to occur by 2020. Household growth in these higher-income brackets suggests that there will be more demand for retail services and goods such as dining and home furnishings as well as specialty apparel, recreation and sporting goods, and luxury items in the PMA.

- Based on average pricing of $1,285 per month for newer (built in 2000 or more recently) one-bedroom apartment units in the Twin Cities Metro Area, a household would need to have an annual income of $51,400 or greater to not exceed 30% of its monthly income on rental housing costs. In 2014, we estimate that approximately 64,789 PMA households (64% of the total) have incomes of at least $51,400. By 2020, the total number of income-qualified households is projected to increase roughly 13% in the PMA, after accounting for inflation.

- Households under the age of 35 are most likely to rent their housing. In 2014, 37% of households age 24 and below and 56% of households age 25 to 34 in the PMA are estimated to have incomes of at least $51,400. Additionally, because younger householders are often willing to live with roommates, the percent income-qualified is likely somewhat higher. Between 2014 and 2020, the number of income-qualified PMA households in the under 25 age cohort is expected to increase by approximately 259 households (+19%), while the 25 to 34 age group experiences 4.4% growth (438 households) in income-qualified households.

- In 2013, the median sale price for multifamily homes (townhomes and condominiums) in Edina was roughly $165,000. Assuming that a potential home buyer has good credit and makes a 10% down payment, a household would need to have a minimum annual income of roughly $43,800 to be income-qualified for a multifamily home purchased at the median sale price. In 2014, roughly 70% of the households (71,209) have incomes of $43,800 or higher. The number of income-qualified households is projected to increase 11% by 2020. Most of this growth will occur in the 65 to 74 and 55 to 64 age groups, but the 35 to 44 cohort will also experience growth in income-qualified households.

- Based on age- and income-distribution projections for households in the PMA, there appears to be growing demand for multifamily housing targeting the 35 to 44 age group as well as the empty nester population (55 to 74 age group).

TABLE 4
HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER
PRIMARY MARKET AREA
2014 & 2020

		Age of Householder						
	Total	**<25**	**25-34**	**35-44**	**45-54**	**55-64**	**65 -74**	**75+**
2014								
Less than $15,000	7,203	644	1,368	714	821	1,182	842	1,632
$15,000 to $24,999	6,831	471	1,267	724	785	957	886	1,741
$25,000 to $34,999	8,420	518	1,920	1,038	985	1,116	1,038	1,805
$35,000 to $49,999	13,178	736	3,053	1,654	1,505	1,515	1,853	2,862
$50,000 to $74,999	16,944	672	3,316	2,672	2,641	2,821	2,309	2,513
$75,000 to $99,999	13,399	403	2,523	2,404	2,259	2,697	2,123	990
$100,000 or more	35,463	351	4,316	7,240	9,771	8,649	3,494	1,642
Total	**101,438**	**3,795**	**17,763**	**16,446**	**18,767**	**18,937**	**12,545**	**13,185**
Median Income	**$71,285**	**$39,142**	**$57,366**	**$88,008**	**$102,509**	**$90,851**	**$65,859**	**$40,940**
2020								
Less than $15,000	6,679	657	1,155	644	622	1,007	894	1,700
$15,000 to $24,999	4,977	361	924	541	501	634	688	1,328
$25,000 to $34,999	6,176	412	1,349	738	579	776	848	1,474
$35,000 to $49,999	11,917	731	2,530	1,465	1,035	1,284	1,820	3,052
$50,000 to $74,999	16,728	775	3,075	2,649	2,200	2,532	2,608	2,889
$75,000 to $99,999	15,314	523	2,712	2,738	2,175	2,926	2,851	1,389
$100,000 or more	44,236	486	5,161	8,943	10,579	10,824	5,588	2,655
Total	**106,027**	**3,945**	**16,906**	**17,718**	**17,691**	**19,983**	**15,297**	**14,487**
Median Income	**$86,910**	**$46,406**	**$71,443**	**$103,568**	**$117,288**	**$110,909**	**$83,858**	**$49,532**
Change 2014 - 2020								
Less than $15,000	-524	13	-213	-70	-199	-175	52	68
$15,000 to $24,999	-1,854	-110	-343	-183	-284	-323	-198	-413
$25,000 to $34,999	-2,244	-106	-571	-300	-406	-340	-190	-331
$35,000 to $49,999	-1,261	-5	-523	-189	-470	-231	-33	190
$50,000 to $74,999	-216	103	-241	-23	-441	-289	299	376
$75,000 to $99,999	1,915	120	189	334	-84	229	728	399
$100,000 or more	8,773	135	845	1,703	808	2,175	2,094	1,013
Total	**4,589**	**150**	**-857**	**1,272**	**-1,076**	**1,046**	**2,752**	**1,302**
Median Income	**$15,625**	**$7,264**	**$14,077**	**$15,560**	**$14,779**	**$20,058**	**$17,999**	**$8,592**

Sources: ESRI; US Census Bureau; Maxfield Research Inc.

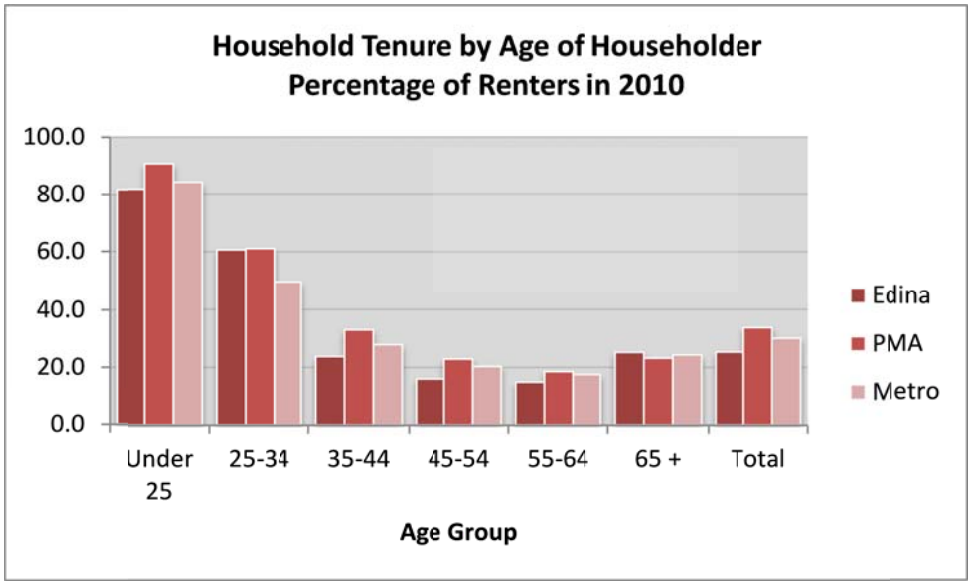
Household Tenure

Table 5 shows household tenure by age of householder for the City of Edina compared to the PMA and the Metro Area in 2000 and 2010. The data is compiled from the U.S. Census Bureau. The table shows the number and percent of renter- and owner-occupied housing units in the Market Area. All data excludes unoccupied units and group quarters such as dormitories.

Household tenure information is important in understanding households' preferences to either rent or own their housing. In addition to preferences, factors that contribute to these proportions include mortgage interest rates, household age, and lifestyle considerations, among others. The following are key points from Table 5.

- Typically, the youngest and oldest households rent their housing in greater proportions than middle-age households. This pattern is apparent among the younger Market Area households as 66.1% of the age 15 to 34 population rents in the PMA (63.2% in Edina). By comparison, 56.2% of the 15 to 34 population rents in the Twin Cities Metro Area.

- Over 90% of households under the age of 25 rented in the PMA in 2010 while approximately 61% of households age 25 to 34 rented. These percentages are much higher than in the Metro Area which had 84% of households under the age of 25 and 49% of age 25 to 34 households renting in 2010. In Edina, roughly 82% of the under 25 age group and 61% of the 25 to 34 age group rented in 2010.



- Within the prime ownership years (35 to 64), over 82% of households in Edina owned in 2010, compared to 76% of PMA householders and 78% in the Metro Area.

TABLE 5
TENURE BY AGE OF HOUSEHOLDER
WOODDALE/VALLEY VIEW MARKET AREA
2000 & 2010

		City of Edina				Primary Market Area				Twin Cities Metro Area			
		2000		2010		2000		2010		2000		2010	
Age		No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Under 25	Own	53	13.2	53	18.5	418	8.9	371	9.6	9,790	17.3	7,947	16.0
	Rent	349	86.8	234	81.5	4,270	91.1	3,494	90.4	46,699	82.7	41,789	84.0
	Total	**402**	**100.0**	**287**	**100.0**	**4,688**	**100.0**	**3,865**	**100.0**	**56,489**	**100.0**	**49,736**	**100.0**
25-34	Own	1,068	53.9	796	39.3	8,383	43.5	7,291	39.0	114,071	55.5	102,236	50.6
	Rent	915	46.1	1,227	60.7	10,909	56.5	11,414	61.0	91,343	44.5	99,716	49.4
	Total	**1,983**	**100.0**	**2,023**	**100.0**	**19,292**	**100.0**	**18,705**	**100.0**	**205,414**	**100.0**	**201,952**	**100.0**
35-44	Own	3,145	82.6	2,349	76.3	15,125	72.8	11,053	67.1	203,729	77.7	154,678	72.3
	Rent	662	17.4	729	23.7	5,650	27.2	5,420	32.9	58,438	22.3	59,303	27.7
	Total	**3,807**	**100.0**	**3,078**	**100.0**	**20,775**	**100.0**	**16,473**	**100.0**	**262,167**	**100.0**	**213,981**	**100.0**
45-54	Own	3,816	87.4	3,620	84.1	16,065	81.6	15,102	77.3	177,090	83.1	202,404	79.8
	Rent	552	12.6	684	15.9	3,628	18.4	4,444	22.7	36,077	16.9	51,379	20.2
	Total	**4,368**	**100.0**	**4,304**	**100.0**	**19,693**	**100.0**	**19,546**	**100.0**	**213,167**	**100.0**	**253,783**	**100.0**
55-64	Own	2,630	87.6	3,416	85.3	10,603	85.4	14,375	81.6	102,583	84.9	162,595	82.6
	Rent	373	12.4	591	14.7	1,809	14.6	3,252	18.4	18,205	15.1	34,355	17.4
	Total	**3,003**	**100.0**	**4,007**	**100.0**	**12,412**	**100.0**	**17,627**	**100.0**	**120,788**	**100.0**	**196,950**	**100.0**
65 +	Own	5,360	72.1	5,221	74.9	16,940	74.2	17,641	76.9	121,704	74.5	152,615	75.8
	Rent	2,073	27.9	1,752	25.1	5,892	25.8	5,305	23.1	41,727	25.5	48,732	24.2
	Total	**7,433**	**100.0**	**6,973**	**100.0**	**22,832**	**100.0**	**22,946**	**100.0**	**163,431**	**100.0**	**201,347**	**100.0**
TOTAL	Own	16,072	76.5	15,455	74.8	67,534	67.7	65,833	66.4	728,967	71.4	782,475	70.0
	Rent	4,924	23.5	5,217	25.2	32,158	32.3	33,329	33.6	292,489	28.6	335,274	30.0
	Total	**20,996**	**100.0**	**20,672**	**100.0**	**99,692**	**100.0**	**99,162**	**100.0**	**1,021,456**	**100.0**	**1,117,749**	**100.0**

Sources: U.S. Census Bureau; Maxfield Research Inc.

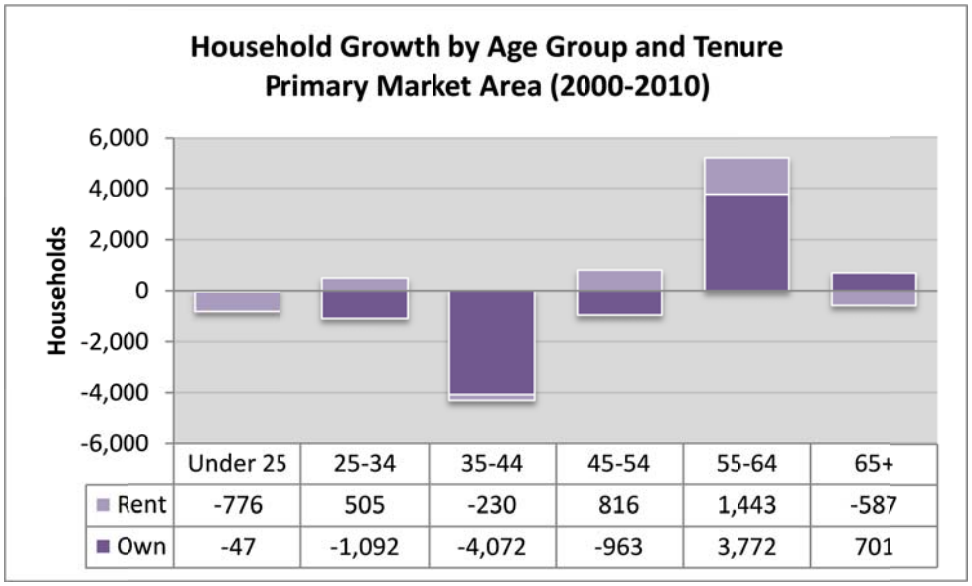
- In the PMA, 34% of all households rented in 2010, resulting in a rental rate that was slightly higher than the Metro Area (30% of households rented in 2010). In Edina, roughly 25% of all households rented. All non-senior age groups rented at higher rates in the PMA than the Metro Area and Edina. Roughly 23% of the 65 and older age group rented in the PMA, compared to 24% in the Metro Area and 25% in Edina.

- The percentage of PMA renter households increased for most age cohorts between 2000 and 2010 as the total number of renter households residing in the PMA grew by 1,171 during the decade, an increase of 3.6%. The number of owner-occupied households declined by -1,701, representing a -2.5% decline during the decade.

- In Edina, the number of renter households grew by 293 during the decade, for a 6.0% increase while the number of owner households contracted by -3.8% (-617 households) between 2000 and 2010.

- As depicted in the following chart, the largest increase occurred in the 55 to 64 age group in the PMA, as 1,443 renter households were added (+80%) and the number of owner households climbed 36% (+3,772 households). Growth also occurred in the 65 and older (senior) age group with the addition of 701 owner households (+4%) against a -10% decline in renter households (-587 households).

- All other cohorts contracted in the PMA during the decade, although renter household growth occurred in the 45 to 54 age group (+816 households for a 23% gain) and the 25 to 34 age group (+505 households for a 5% increase). These gains were offset by losses in owner households, particularly in the 35 to 44 age group which experienced a loss of -4,072 owner households (-27%) between 2000 and 2010.



	Under 25	25-34	35-44	45-54	55-64	65+
Rent	-776	505	-230	816	1,443	-587
Own	-47	-1,092	-4,072	-963	3,772	701

Household Type

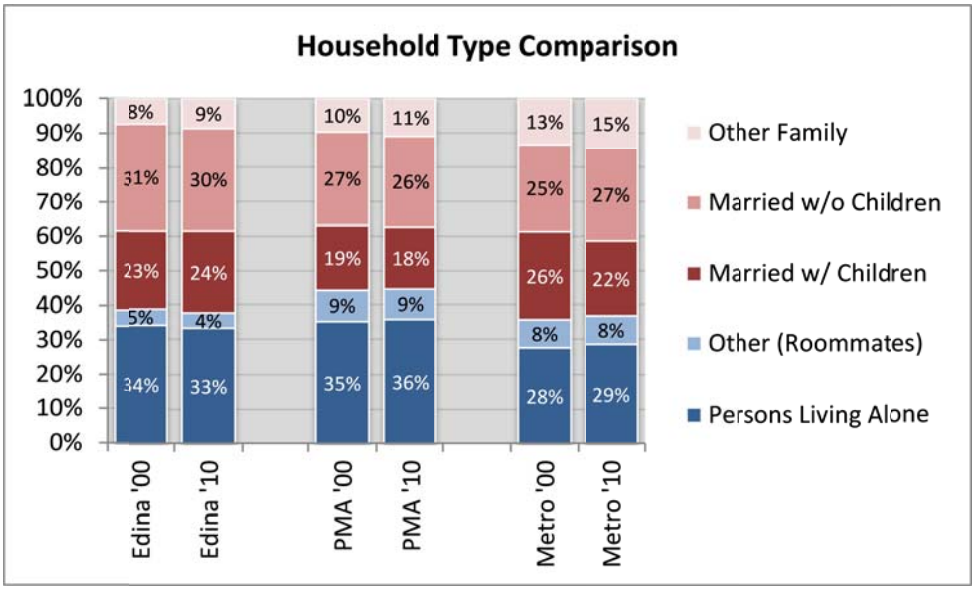
Table 6 shows household type trends in Edina compared to the Primary Market Area as well as the Twin Cities Metro Area in 2000 and 2010. The data is collected from the U.S. Census. The following are key points from Table 6.

- In 2010, family households comprised 62.5% of all households in Edina, 55.3% in the PMA, and 63.3% in the Metro Area. Between 2000 and 2010, the number of family households increased in Edina and the Metro Area, but declined in the PMA.

- In the City of Edina, the number of married couple families with children increased by 157 households during the decade, representing a 3.3% increase, while the number of married couple families without children declined by -352 (-5.4%). Other family households in Edina jumped nearly 15% after increasing by 235 households.

- The PMA experienced a -4.9% decline in the number of married couples with children after contracting by -913 households, while the number of married couples without children decreased by -905 households (-3.4%). Other family households increased 12.1% during the decade (+1,181 households).

- Married couple families with children typically generate demand for single-family detached ownership housing. Married couple families without children are generally made up of younger couples that have not had children (and may not have children) and older couples with adult children that have moved out of the home. These household types often desire multifamily housing options for convenience reasons. Other family households, defined as a male or female householder with no spouse present (typically single-parent households), often require affordable housing.



- The Metro Area experienced an increase in the number of family households during the decade as the number of married couples without children climbed 16.0% and the number of other family households grew 19.0%. Married couples with children declined -6.9%.

- Between 2000 and 2010, non-family households collectively declined by -364 households in Edina (-4.5%). The PMA experienced a modest increase (+107) in nonfamily households while the number of nonfamily households in the Metro Area expanded by 13%. An increase in the percentage of these household types indicates a shift in housing needs that favors rental development. However, households composed of unrelated roommates can also be unmarried couples that may choose to own and can often afford to own if they are double-income.

- The number of households with one resident slipped -4.2% in Edina over the decade, from 7,149 households in 2000 to 6,851 in 2010, while the number of households with roommates declined -6.8% (-66 households). Single-person households climbed 1.2% in the PMA and 14% in the Metro Area. The number of roommate households decreased -3.3% in the PMA but expanded 11% in the Metro Area.

- Single-person households were the most common household type in Edina in 2010 (33.1% of all households), followed closely by married couples without children (29.8%). Single-person households were also the most common household type in the PMA (35.7%), followed by married couples without children (26.3%). In the Metro Area, single-person households representing 28.5% of all households.

TABLE 6
HOUSEHOLD TYPE
WOODDALE/VALLEY VIEW MARKET AREA
2000 & 2010

			NON-FAMILY HHs				FAMILY HHs					
	Total Households		Persons Living Alone		Other (Roommates)		Married w/ Children		Married w/o Children		Other Family	
2000												
Edina	20,996		7,149		969		4,798		6,505		1,575	
Primary Market Area	99,692		34,936		9,320		18,659		26,985		9,792	
Twin Cities Metro Area	1,021,454		281,086		82,209		262,754		257,527		137,878	
2010												
Edina	20,672		6,851		903		4,955		6,153		1,810	
Primary Market Area	99,162		35,353		9,010		17,746		26,080		10,973	
Twin Cities Metro Area	1,117,749		319,030		91,223		244,687		298,723		164,086	
Change (2000-2010)												
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Edina	-324	-1.5%	-298	-4.2%	-66	-6.8%	157	3.3%	-352	-5.4%	235	14.9%
Primary Market Area	-530	-0.5%	417	1.2%	-310	-3.3%	-913	-4.9%	-905	-3.4%	1,181	12.1%
Twin Cities Metro Area	96,295	9.4%	37,944	13.5%	9,014	11.0%	-18,067	-6.9%	41,196	16.0%	26,208	19.0%

Sources: U.S. Census Bureau; ESRI; Maxfield Research Inc.

Employment Growth

Table 7 shows employment growth trends and projections from 2000 to 2030 based on the most recent information available from the Minnesota Department of Employment and Economic Development (DEED) and the Metropolitan Council. Data for 2000, 2010, and 2013 represents the annual average employment for that year. Employment projections for 2020 and 2030 are sourced from recently released forecasts provided by the Metropolitan Council.

Although employment growth often parallels population growth, it often is tied more strongly to transportation access. Cities with interstate access and intra- and inter-metro transportation connections attract more businesses and post higher employment gains. Employment growth can fuel household and population growth as people generally desire to live near where they work.

- In 2000, there were 53,124 jobs in Edina. In light of the economic recession, by 2010 employment had declined -10.6% (-5,649 jobs) in Edina. By comparison, Hennepin County experienced a -8.1% decline in employment while the number of jobs in the Twin Cities dropped -4.0%.

- Data from the Quarterly Census of Employment and Wages indicates that Edina gained roughly 1,700 jobs (+3.6%) between 2010 and 2013. During that time, the number of jobs increased 6.2% in Hennepin County and 5.3% in the Metro Area. Solid job growth is expected throughout the Market Area between 2010 and 2020. Edina is projected to experience an 8.3% gain during the decade (+3,925 jobs), while employment in Hennepin County increases 17.5% and Metro Area employment grows by 18.5%.

- Much of the employment growth will occur as jobs lost during the recession are replaced and employers become increasingly attracted to the large existing labor pool and convenient access to the major transportation corridors located in the area. Employers are likely to be forced now into hiring as many reduced their workforces significantly and can no longer achieve significant productivity increases with the existing number of employees.

TABLE 7
EMPLOYMENT GROWTH TRENDS AND PROJECTIONS
WOODDALE/VALLEY VIEW MARKET AREA
2000-2030

						Change			
				Projection		2000-2010		2010-2020	
	2000	2010	2013	2020	2030	No.	Pct.	No.	Pct.
Edina	**53,124**	**47,475**	**49,174**	**51,400**	**53,200**	**-5,649**	**-10.6**	**3,925**	**8.3**
Hennepin County	874,901	803,743	853,465	944,230	1,001,200	-71,158	-8.1	140,487	17.5
Twin Cities Metro Area	1,600,760	1,537,052	1,618,931	1,820,710	1,955,580	-63,708	-4.0	283,658	18.5

Sources: Minnesota Department of Employment and Economic Development; Met Council; Maxfield Research Inc.

Commuting Patterns of Area Workers

Proximity to employment is often a primary consideration when choosing where to live, particularly for younger and lower income households since transportation costs often account for a greater proportion of their budgets. Table 8 highlights the commuting patterns of workers in the area surrounding the Study Area (55424 ZIP Code) based on data from the U.S. Census Bureau Longitudinal Employer-Household Dynamics (LEHD) program for 2011, the most recent data available.

- As the table illustrates, nearly 85% of the workers employed in the area reside outside Edina, with most commuting from Minneapolis (16.5%) and the communities of Bloomington (5.2%), Eden Prairie (4.4%), St. Paul (4.4%), and St. Louis Park (3.3%). Approximately 59% of the workers in the 55424 ZIP Code reside within ten miles of their place of employment while 33% travel from 10 to 24 miles.

TABLE 8
COMMUTING PATTERNS
55424 ZIP CODE
2011

Home Destination			Work Destination		
Place of Residence	**Count**	**Share**	**Place of Employment**	**Count**	**Share**
Minneapolis city, MN	504	16.5%	Minneapolis city, MN	1,016	27.3%
Edina city, MN	473	15.5%	Edina city, MN	507	13.6%
Bloomington city, MN	159	5.2%	Bloomington city, MN	233	6.3%
Eden Prairie city, MN	135	4.4%	St. Paul city, MN	225	6.1%
St. Paul city, MN	135	4.4%	St. Louis Park city, MN	221	5.9%
St. Louis Park city, MN	102	3.3%	Minnetonka city, MN	185	5.0%
Richfield city, MN	79	2.6%	Eden Prairie city, MN	179	4.8%
Minnetonka city, MN	72	2.4%	Golden Valley city, MN	154	4.1%
Plymouth city, MN	67	2.2%	Plymouth city, MN	79	2.1%
Lakeville city, MN	63	2.1%	Eagan city, MN	73	2.0%
All Other Locations	1,262	41.4%	All Other Locations	844	22.7%
Distance Traveled			**Distance Traveled**		
Total Primary Jobs	3,051	100.0%	Total Primary Jobs	3,716	100.0%
Less than 10 miles	1,785	58.5%	Less than 10 miles	2,898	78.0%
10 to 24 miles	1,008	33.0%	10 to 24 miles	754	20.3%
25 to 50 miles	157	5.1%	25 to 50 miles	63	1.7%
Greater than 50 miles	101	3.3%	Greater than 50 miles	1	0.0%

Home Destination = Where workers live who are employed in the selection area
Work Destination = Where workers are employed who live in the selection area

Sources: US Census Bureau Local Employment Dynamics; Maxfield Research, Inc.

- Roughly 14% of the workers living in the 55424 ZIP Code have jobs in Edina. The others commute to other communities, most notably into Minneapolis (27.3%). Other communities drawing a significant number of area workers include Bloomington (6.3%), St. Paul (6.1%), and St. Louis Park (5.9%). Roughly 78% of area resident workers travel less than ten miles to their place of employment, while 20% have a commute distance from 10 to 24 miles.

Table 9 provides a summary of the inflow and outflow characteristics of the workers in the 55424 ZIP Code. Outflow reflects the number of workers living in the area but employed outside that ZIP Code while inflow measures the number of workers that are employed in the ZIP Code but live outside. Interior flow reflects the number of workers that both live and work in the area.

- As the table shows, the number of workers leaving the area for employment (outflow) is slightly higher than the number of workers coming into the area (inflow). Roughly 3,585 residents leave for employment while 2,920 come into the area, while only 131 both live and work in the area (interior flow). Roughly 96% of the jobs in the area are filled by outside residents.

- With 2,920 workers commuting into the area daily, there appears to be an opportunity for retailers to capture sales from the daytime population. Most of the workers coming into area are aged 30 to 54 and earn more than $3,333 per month.

TABLE 9
COMMUTING INFLOW/OUTFLOW CHARACTERISTICS
55424 ZIP CODE
2011

	Outflow		Inflow		Interior Flow	
55424 Total	**3,585**	**100.0%**	**2,920**	**100.0%**	**131**	**100.0%**
By Age						
Workers Aged 29 or younger	548	15.3%	843	28.9%	19	14.5%
Workers Aged 30 to 54	2,197	61.3%	1,517	52.0%	62	47.3%
Workers Aged 55 or older	840	23.4%	560	19.2%	50	38.2%
By Monthly Wage						
Workers Earning $1,250 per month or less	471	13.1%	996	34.1%	53	40.5%
Workers Earning $1,251 to $3,333 per month	684	19.1%	684	23.4%	34	26.0%
Workers Earning More than $3,333 per month	2,430	67.8%	1,240	42.5%	44	33.6%
By Industry						
"Goods Producing"	324	9.0%	67	2.3%	6	4.6%
"Trade, Transportation, and Utilities"	578	16.1%	300	10.3%	13	9.9%
"All Other Services"*	2,683	74.8%	2,553	87.4%	112	85.5%

*includes the following sectors: Information, Financial Activities, Professional & Business Services, Education & Health Services, Leisure & Hospitality, Other Services, and Public Administration

Sources: US Census Bureau Local Employment Dynamics; Maxfield Research, Inc.

Multifamily Housing Market Analysis

This section of the report presents an overview of multifamily housing market conditions in Edina and the surrounding area. Included are reviews of residential construction trends, rental rate and vacancy trends among general-occupancy apartments, residential sales trends, and demand calculations of market rate general-occupancy apartments, and for-sale housing.

Residential Construction Trends

Based on residential building permit data, Table 10 on the following page presents the number of housing units added in Edina compared to the adjacent communities of Bloomington, Hopkins, Richfield, and St. Louis Park between 2000 and 2013.

The data is sourced from the Metropolitan Council and represents the number of units permitted by housing type, including; single-family detached units (SFD), townhouse units (TH), and multifamily units (MF). Multifamily includes duplex, triplex, and fourplex units as well as buildings with five or more units.

- Residential permitting activity dropped sharply between 2006 and 2010, after peaking at 1,045 units permitted in 2005. However, residential construction activity jumped from 131 units permitted in 2010 to 977 units permitted in 2011. On average, these communities have permitted roughly 834 units per year since 2010. By comparison, 520 units have been permitted annually on average between 2000 and 2010.

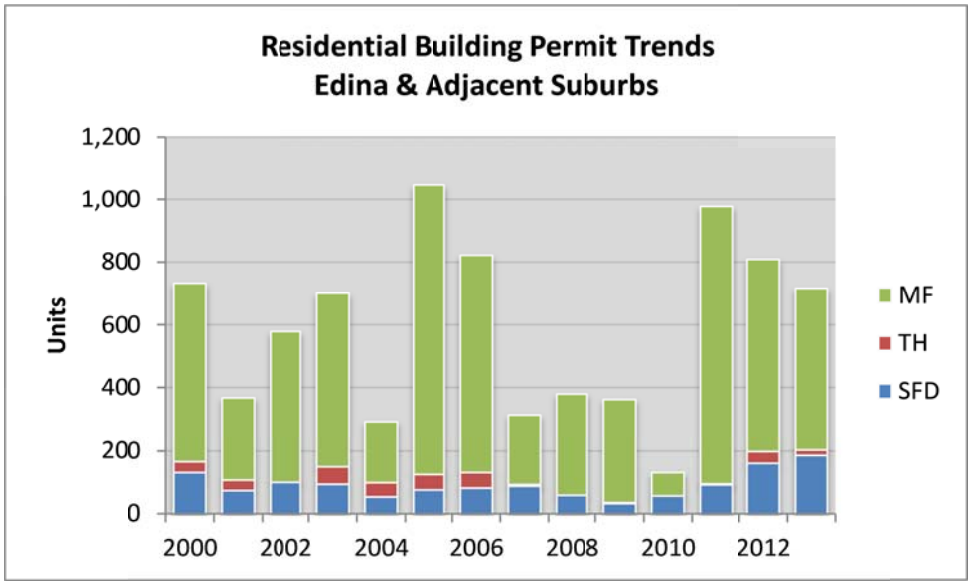


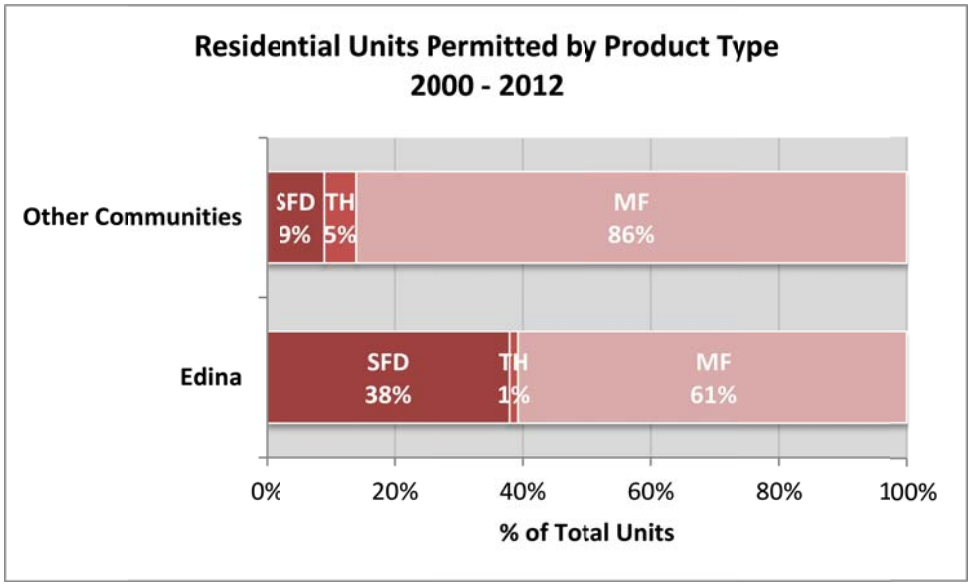
TABLE 10
RESIDENTIAL BUILDING PERMIT TRENDS
EDINA AND ADJACENT COMMUNITIES
2000 - 2013

	City of Edina				Adjacent Suburbs				Total			
	SFD	TH	MF	Total	SFD	TH	MF	Total	SFD	TH	MF	Total
2000	28	0	0	28	103	34	567	704	131	34	567	732
2001	23	0	71	94	50	33	190	273	73	33	261	367
2002	27	0	100	127	72	0	379	451	99	0	479	578
2003	31	0	51	82	62	56	500	618	93	56	551	700
2004	25	0	0	25	27	46	193	266	52	46	193	291
2005	45	0	51	96	30	50	869	949	75	50	920	1,045
2006	52	23	130	205	29	27	561	617	81	50	691	822
2007	62	0	0	62	25	5	220	250	87	5	220	312
2008	38	0	235	273	20	0	86	106	58	0	321	379
2009	21	0	0	21	10	3	328	341	31	3	328	362
2010	42	0	76	118	13	0	0	13	55	0	76	131
2011	60	0	0	60	31	3	883	917	91	3	883	977
2012	103	0	141	244	57	38	469	564	160	38	610	808
2013	124	0	234	358	62	17	279	358	186	17	513	716
Total	**681**	**23**	**1,089**	**1,793**	**591**	**312**	**5,524**	**6,427**	**1,272**	**335**	**6,613**	**8,220**

SFD = single-family detached; TH = townhouse; MF = multifamily with 2+ units in a building
Adjacent Suburbs includes Bloomington, Hopkins, Richfield, and St. Louis Park

Sources: Metropolitan Council; Maxfield Research, Inc.

- Multifamily homes have been the most common housing type developed since 2000, representing 80% of all units permitted. Townhomes represented only 4% of all residential construction activity while detached single-family units represented 16% of all units permitted.

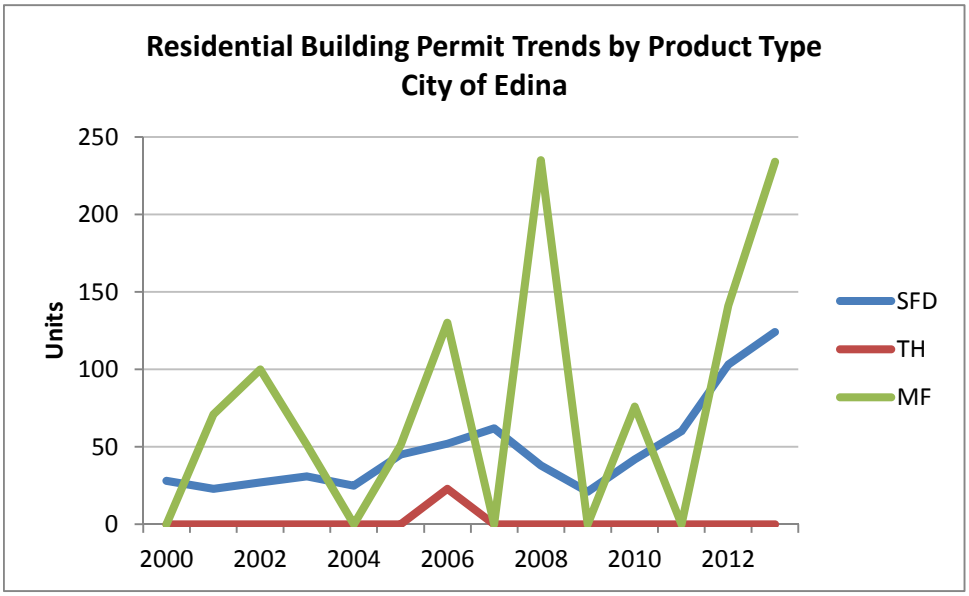


- Compared to the other communities, the City of Edina experienced a relatively high proportion of detached single-family residential development, as 38% of all units permitted were for detached single-family homes and 61% of the units were in multifamily structures. Roughly 9% of the residential permits in the other communities were for detached single-family homes, while 86% were multifamily.

- Roughly 22% of all new residential units in the area were permitted in the City of Edina between 2000 and 2013. However, Edina contained 54% of all the permitted detached single-family dwellings. Roughly 16% of the Market Area's supply of new multifamily units was permitted in Edina.

- Residential construction activity has fluctuated in Edina over the years, but Edina did not experience the sharp drop-off in activity that the other communities experienced in 2006 and 2007. As illustrated in the following chart, the number of multifamily units permitted in Edina spiked in 2008 with 235 units, followed by a large number of units permitted in 2012 (141 units) and again in 2013 (234 units). Permitting activity for detached single-family homes has been climbing steadily in Edina since 21 permits issued in 2009, reaching 124 units in 2013.

- Between 2000 and 2010, Edina averaged roughly 103 permitted units per year (36 detached single-family units and 65 multifamily units). However, since 2010, the City has averaged 221 permitted units annually (96 detached single-family units per year and 125 multifamily units).

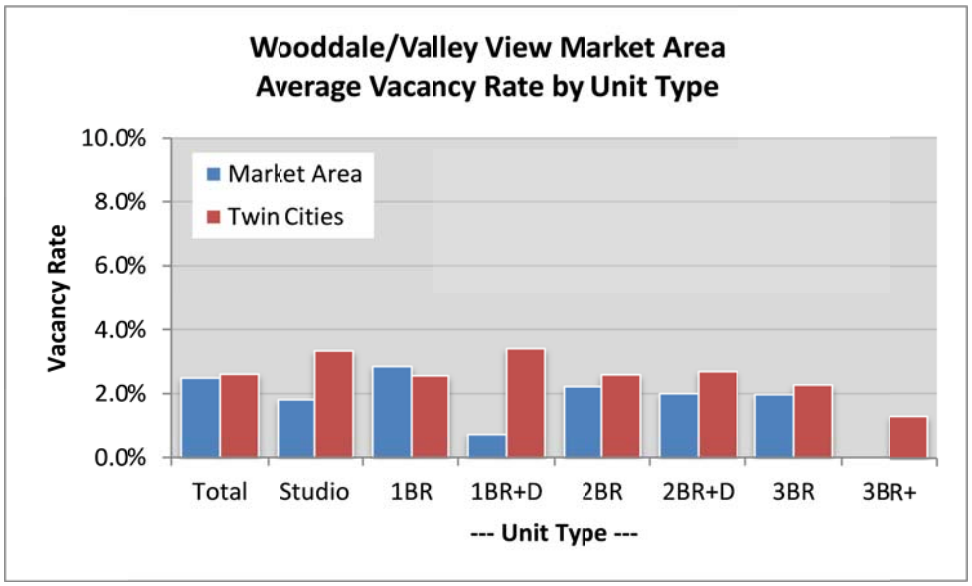


Overview of Rental Market Conditions

The table on the following page displays average monthly rent and vacancy rate data from Marquette Advisors *Apartment Trends* report for the Twin Cities Metro Area along with the Edina and Southwest Minneapolis submarkets. The data is shown for the 2nd Quarter of 2013 compared to the 2nd Quarter of 2014, the most recent data available. The following are key points concerning the Market Area's rental market.

- The equilibrium vacancy rate for rental housing is considered to be 5.0%. This allows for normal turnover and an adequate supply of alternatives for prospective renters. During the second quarter of 2014, the vacancy rate was 2.6% in the Twin Cities Metro Area and 2.5% across the Edina and Southwest Minneapolis submarkets. In effect, the overall supply of rental housing in the Market Area is below the level considered adequate to meet demand.

- As illustrated in the following chart, vacancy rates were relatively consistent across all unit types, with one-bedroom units in Edina and Southwest Minneapolis having the highest vacancy rate at 2.9%. Two-bedroom units had a 2.0% vacancy rate, while two-bedroom plus den and three-bedroom units were 2.0% vacant. Studio and one-bedroom plus den units were 1.8% vacant and 0.7% vacant, respectively.



- Across the Metro Area, vacancies were lowest for units with three or more bedrooms (1.3%), followed by three-bedroom units (2.3%). One- and two-bedroom units were both 2.6% vacant, while two-bedroom plus den units had a 2.7% vacancy rate. Vacancies were highest among one-bedroom plus den units (3.4%) and studio units (3.3%).

- Among the two Market Area submarkets, Southwest Minneapolis had a slightly higher vacancy rate (2.5%) than Edina (2.4%). Total vacancy in these two submarkets inched up 0.1 percentage point over the past year, from 2.4% in the second quarter of 2013 to 2.5% in 2014. Vacancy in Southwest Minneapolis increased 0.6% over the year, while Edina experienced a -1.2% decline in vacancy.

- One-bedroom units are the predominant unit type in Edina, representing 45% of the inventory (1,187 units), followed by two-bedroom units at 41% (1,097) and three-bedroom units at 8% (200). Roughly 3% of the inventory is comprised of studio units, 2% are one-bedroom plus den units, and approximately 1% are studio units.

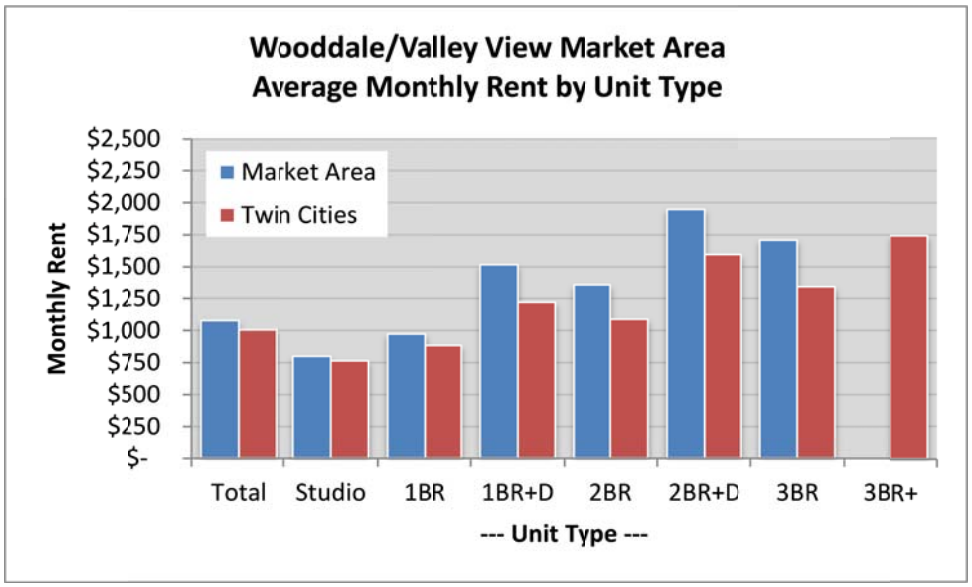
TABLE 11
AVERAGE RENTS/VACANCIES TRENDS
WOODDALE/VALLEY VIEW MARKET AREA
Second Quarter 2013 to Second Quarter 2014

		Total	Studio	1 BR	1 BR w/ Den	2 BR	2 BR w/ Den	3 BR	3 BR/D or 4BR	Average Increase
EDINA										
Q2/2013	Units	**2,670**	83	1,182	52	1,139	23	191	--	--
	No. Vacant	**97**	0	35	1	52	2	7	--	--
	Avg. Rent	**$1,219**	$898	$1,052	$1,492	$1,301	$1,858	$1,718	--	4.4%
	Vacancy	**3.6%**	0.0%	3.0%	1.9%	4.6%	8.7%	3.7%	--	1.6%
Q2/2014	Units	**2,646**	83	1,187	52	1,097	27	200	--	--
	No. Vacant	**64**	0	30	0	29	0	5	--	--
	Avg. Rent	**$1,241**	$923	$1,061	$1,507	$1,345	$1,783	$1,707	--	1.9%
	Vacancy	**2.4%**	0.0%	2.5%	0.0%	2.6%	0.0%	2.5%	--	-1.2%
SOUTHWEST MINNEAPOLIS										
Q2/2013	Units	**6,873**	1,341	4,120	85	1,267	23	37	--	--
	No. Vacant	**130**	26	68	2	31	2	1	--	--
	Avg. Rent	**$928**	$763	$873	$1,483	$1,201	$2,127	$1,610	--	1.0%
	Vacancy	**1.9%**	1.9%	1.7%	2.4%	2.4%	8.7%	2.7%	--	0.0%
Q2/2014	Units	**7,666**	1,353	4,633	85	1,519	23	53	--	--
	No. Vacant	**193**	26	136	1	29	1	0	--	--
	Avg. Rent	**$1,020**	$790	$950	$1,521	$1,366	$2,140	$1,714	--	9.9%
	Vacancy	**2.5%**	1.9%	2.9%	1.2%	1.9%	4.3%	0.0%	--	0.6%
TWIN CITIES METRO AREA										
Q2/2013	Units	**114,715**	5,486	50,213	2,200	49,170	1,154	6,177	315	--
	No. Vacant	**2,675**	127	1,084	82	1,171	38	164	9	--
	Avg. Rent	**$979**	$736	$854	$1,213	$1,063	$1,418	$1,346	$1,742	3.0%
	Vacancy	**2.3%**	2.3%	2.2%	3.7%	2.4%	3.3%	2.7%	2.9%	-0.4%
Q2/2014	Units	**114,496**	5,542	50,241	2,256	48,868	1,152	6,125	312	--
	No. Vacant	**2,986**	185	1,286	77	1,264	31	139	4	--
	Avg. Rent	**$1,004**	$762	$882	$1,219	$1,086	$1,595	$1,343	$1,741	2.6%
	Vacancy	**2.6%**	3.3%	2.6%	3.4%	2.6%	2.7%	2.3%	1.3%	0.3%

Sources: GVA Marquette Advisors; Maxfield Research Inc.

- The unit mix in Edina is similar to the Twin Cities, although the Metro Area has a slightly higher proportion of studio units (5% of the total) and two-bedroom units (43%). Roughly 44% of the units in the Metro Area have one bedroom, 2% have one bedroom and a den, 1% is two-bedroom plus den units, and 5% have three bedrooms.

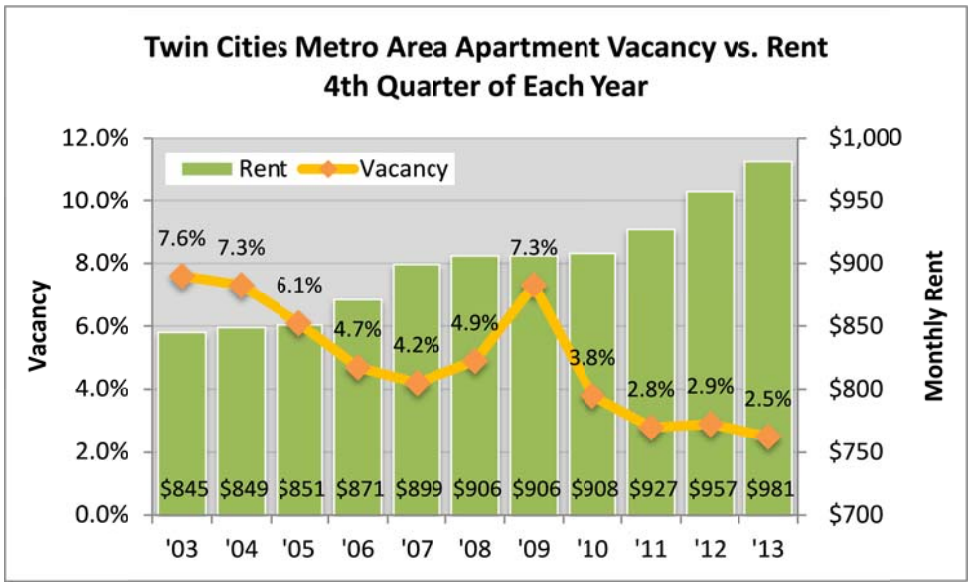
- Average monthly rents increased 2.6% during the year to over $1,000 across the Metro Area, and the Edina/Southwest Minneapolis Market Area experienced a 6.7% increase. At $1,077, the weighted average monthly rent in the Market Area is 7.3% higher than the Twin Cities average. Within Edina and Southwest Minneapolis, average rental rates range from $1,241 in Edina to $1,020 in the Southwest Minneapolis submarket. Average rents in Edina increased 1.9% over the past year, while rents in Southwest Minneapolis jumped 9.9%.



- Newer rental communities have substantially higher rental rates than older properties. The weighted average rent for rental communities built in the year 2000 or more recently is $1,419 per month, roughly 41% higher than the market average ($1,004). Over the past year, the average rent in newer rental communities increased nearly 14% from $1,250 in the second quarter of 2013.

- As of the second quarter of 2014, the average market rent among communities built in the year 2000 or more recently ranged from $1,105 for studio units to $1,778 for a two-bedroom plus den unit. One-bedroom rents in these newer properties averaged $1,285 per month, while one-bedroom plus den units had an average rent of $1,450 per month. Two-bedroom unit rents averaged $1,539 per month and three-bedroom units had an average monthly rent of $1,586.

- The following chart illustrates how the general occupancy apartment market recovered after struggling with rapidly rising vacancy rates between the fourth quarter of 2007 and the fourth quarter of 2009.



- The tight market can be attributed to a group of foreclosed homeowners that entered the rental market during the Great Recession and traditional renters, who are potential home-owners, staying in the rental market longer due to lifestyle preferences. Job growth is also contributing to demand for apartment units, as new people are relocating to the region for employment and moving into rental properties.

- According to Marquette Advisors, 3,195 apartment units were absorbed in 2013, more than double the amount of absorption in 2012 (1,217 units absorbed). This increase in absorption can be attributed, in large part, to a growing supply of units, as the tight supply constrained absorption in 2012 and 2011. Through the first half of 2014, roughly 1,754 units were absorbed across the Twin Cities Metro Area, slightly lower than the 2,154 units absorbed during the first half of 2013.

- Numerous projects are either under construction or in the development pipeline in the Twin Cities. Maxfield Research is tracking nearly 5,000 units that are under construction, and approximately 3,000 units came online in 2013. Most of this new construction is located in Downtown and Southwest Minneapolis. Completion of these new units will likely generate a vacancy increase, particularly in Downtown Minneapolis, as the number of units being delivered will outpace absorption in the near term. Through the first six months of 2014, Downtown Minneapolis accounted for 30% of the units under construction in the Metro Area.

- There are several market rate general occupancy apartment projects pending in Edina and the rest of the PMA. In total, we estimate that there are approximately 1,730 units planned, under construction, or recently opened and still in initial lease-up in the PMA. These projects are summarized below:

    - 7200 France Redevelopment in Edina consists of 195 rental housing units (170 apartments and 25 row housing units);
    - One Southdale Place in Edina is a 232-unit apartment development located at the corner of 69th Street and York Avenue;
    - 71 France Apartments at 7171 France Avenue in Edina is a 234-unit apartment development on the site of the Edina Byerly's grocery store;
    - Lennar has plans approved for a 240-unit apartment development at the site of the former Wicke's Furniture store at 6725 York Avenue in Edina;
    - The Covington is a five-story 250-unit rental project that recently opened at 5701 Green Valley Drive in Bloomington;
    - Also in Bloomington, the 282-unit The Luxembourg at 5100 West 82nd Street is nearing construction completion.
    - Millennium at West End is a 158-unit apartment project that was recently approved for development at 5245 Wayzata Boulevard in St. Louis Park.
    - Eliot Park Apartments is an approved 138-unit apartment complex located on the former Eliot School site on Cedar Lake Road in St. Louis Park.

Market Rate Rental Demand Calculations

Table 12 presents our calculation of market rate general occupancy rental housing demand for the PMA. Factors considered include pending developments, demographic trends and population shifts. Potential demand is calculated from two categories:

1. From new household growth by age group based on the propensity of households to rent their housing in the Primary Market Area; and,

2. From existing households that will remain in the Market Area because new product is available and they value other area amenities including proximity to employment, entertainment and recreation.

First, we calculate potential demand from new income-qualified household growth between 2014 and 2020 by age group based on the propensity of households to rent their housing in the PMA. We focus on households between the ages of 18 and 64 that will account for the vast majority of rental demand at the proposed project. The propensity to rent or own is based on Census Bureau 2010 figures by age cohort.

TABLE 12
PROJECTED DEMAND FOR MARKET RATE RENTAL HOUSING
PRIMARY MARKET AREA
2014 to 2020

		Primary Market Area				
		Number of Households				
		Age <25	Age 25 to 34	Age 35 to 44	Age 45 to 64	Age 65 & Over
Demand From Household Growth						
Projected Income-Qualifed Household Growth 2014 - 2020[1]		259	438	1,698	1,874	4,209
(times) Proportion estimated to be renting their housing[2]	x	90%	61%	33%	21%	23%
(equals) Demand For Rental Housing, 2014 - 2020	=	**233**	**267**	**560**	**394**	**968**
Demand From Existing Households						
Number of renter households in 2014		3,431	10,835	5,411	7,745	5,805
(times) Estimated % Turnover between 2014 & 2020	x	57%	57%	43%	43%	33%
(equals) Total Existing Households Projected to Turnover	=	1,956	6,176	2,327	3,330	1,916
(times) Percent of Households Income Qualified[2]	x	37%	56%	74%	76%	50%
(equals) Total Number of Income-Qualified Households	=	**714**	**3,459**	**1,719**	**2,518**	**952**
(times) Estimated % Desiring New Rental Housing[3]	x	16%	16%	16%	16%	16%
(equals) Demand From Existing Households	=	**114**	**553**	**275**	**403**	**152**
Total Demand From Household Growth and Existing Households		**347**	**821**	**835**	**796**	**1,120**

Demand Summary		
Total Market Area Demand for Rental Housing in PMA	=	**3,024**
(plus) Demand from outside PMA (25%)[4]	+	1,008
(equals) Potential demand for rental housing in the PMA (2014 to 2020)	=	**4,032**
(minus) Pending rental units in the PMA at equilibrium	-	1,643
(equals) Excess demand for rental housing in the PMA (2014 to 2020)	=	**2,389**
(times) Percent capturable in Study Area		5%
(equals) Total Demand Capturable on a Site in the Study Area		**119**

[1] $51,400 in 2014 based on pricing of of 1BR units in the inventory of newer properties.
[2] Data from U.S. Census Bureau.
[3] Source - *The Upscale Apartment Market: Trends and Prospects*. Prepared by Jack Goodman of Hartrey Advisors for the National Multi Housing Council.
[4] 25% of total units to be captured from outside the PMA.

Source: Maxfield Research Inc.

Next, we calculate the percentage of renters who are income-qualified for market rate rental housing. For market rate housing, household incomes must equal or exceed $51,400 in order to afford a one-bedroom unit in a newer property (built in the year 2000 or more recently) in the Twin Cities. We also include a portion (20%) of the demand potential generated by households age 65 and older, as a segment of this age group that is able to live independently could be drawn to a new general occupancy rental housing development in the Study Area.

The second part of the analysis calculates demand from existing households, or turnover demand. Younger households tend to be highly mobile, relative to older households. The youngest households are generally unable to afford rents at the top of the market unless they

receive assistance from their parents or desire a roommate. Mobility rates were identified by age group (utilizing Census data) and were applied to the existing household base.
Together with demand from projected household growth and turnover, the total demand for PMA market rate rental housing is summarized. In the PMA, total demand for income-qualified general occupancy market rate rental housing between 2014 and 2020 is 3,024 units. An additional proportion is added for households that would move to a rental project in the PMA who currently reside outside the PMA. We estimate that 25% of the demand potential for rental housing would be derived from outside the PMA, increasing demand to 4,032 units.

From the demand potential, we subtract pending rental developments in the PMA at market equilibrium (95% occupancy) to find the remaining excess demand in the Market Area. We identified eight projects that are planned, under construction, or recently completed (still in initial lease-up) in the PMA with a total of 1,729 units. As such, we subtract 1,643 units (pending units at equilibrium) from the demand potential, resulting in excess demand for 2,389 rental units in the PMA between 2014 and 2020. A portion of this excess demand potential could be satisfied by a rental housing development in the Study Area.

We estimate that a development in the Study Area could capture approximately 5% of the total demand in the PMA. This capture rate is based on the Site location and considers its potential draw from the PMA. It also accounts for the number and location of other developments that would satisfy demand. We anticipate that the subject property could support approximately 119 units of new market rate general occupancy rental housing between 2014 and 2020.

Rental Housing Preliminary Conclusions

Multifamily rental housing is a bright spot in the real estate industry today; here in the Twin Cities Metro Area and nationally. The downturn in the housing market and the overall economic slowdown initially created increased demand for rental housing. With increased home buying due to the tax credit and subsequent increased unemployment, vacancy rates climbed steadily from 2007 through 2009. However, vacancy rates have since decreased while rental traffic has increased according to property managers and leasing personnel. As of the second quarter of 2014, the apartment market vacancy rate was at 2.4% in Edina while the Twin Cities vacancy rate was 2.6%, both of which were well-below equilibrium. A vacancy rate under 5.0% indicates pent-up demand.

The housing market crash of the Great Recession pushed the homeownership rate down, resulting in new renters into the market. Home ownership psychology remains tenuous as a number of former owners lost their homes to foreclosure or sold at a loss. Many first-time home buyers are awaiting clearer indication that the economy is stable before deciding to purchase. If mortgage interest rates remain low and job growth continues, prospects will begin to have greater confidence and those that want to and are able to move back into the for-sale market or move into the for-sale market, especially first-time homebuyers, may choose to own versus rent.

Demand for rental housing has increased because there are more people in the rental market than would have otherwise been the case if the for-sale market had not declined. Also, population growth has occurred among the echo boom generation (20 to 34 year olds), the primary age for renters. Job growth is occurring and the Twin Cities Metro Area unemployment rate decreased to 3.6% as of September 2014 from 4.6% the previous year after employment increased by 1.8% against labor force growth of 0.8%. The ability to support a significant number of new rental units in the market will rely on the following situations: prospects continuing to prefer rentals over homeownership; more robust job growth; and, continued skepticism about the long-term appreciation of for-sale housing.

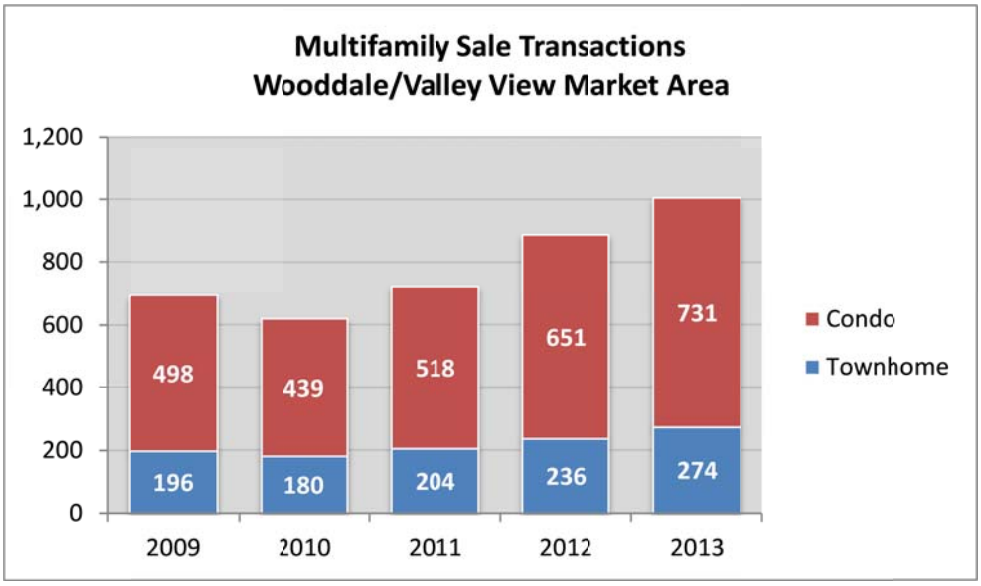
Strong demographics from the echo boom generation will likely generate substantial rental housing demand over the next several years. Additionally, the Twin Cities Metro Area continues to see more lifestyle renters, those with busy professional lives and people who prefer to spend their free time in leisure pursuits rather than on upkeep and maintenance of a home. The strongest sources of demand for rental housing in Edina will likely be young professional singles and couples without children in their late-20s and early-30s who work in nearby suburban communities or in Minneapolis. Additionally, mid-age households (never-nesters or empty-nesters) and some retired individuals and couples could be attracted to the amenities associated surrounding the Wooddale/Valley View node and account for a portion of demand for new rental housing in the area.

Home Sales

The table on the following page presents multifamily home sale data from 2009 through July 2014 for Edina and the adjacent suburban communities of St. Louis Park, Richfield, and Bloomington, as well the portion of southwest Minneapolis in the 55410 ZIP Code. Comparisons are made to Hennepin County and the Twin Cities Metro Area. This data was obtained from the Minneapolis Area Association of Realtors.

- Between 2009 and 2013, the number of multifamily sales in the Market Area increased 45% with a total of 1,005 closed multifamily sales in 2013. The number of townhome sales increased 40% while condominium sale transactions increased 47%. Condominium sales comprised a significant proportion of the multifamily sales volume, representing over 72% of all multifamily sale transactions in the Market Area from 2009 to 2013.

- Through the first seven months of 2014, the pace of multifamily sales activity in the Market Area communities has been consistent with the pace of sales in 2013 as a total of 566 multifamily transactions have closed which equates to an average of 81 sales per month, compared to an average of 84 per month in 2013.



- With a total of 4,696 multifamily sales in 2013, Hennepin County experienced a 19% increase in multifamily residential sales between 2009 and 2013. Multifamily sales activity increased 13% across the Twin Cities Metro Area. Condominium sales comprised nearly 50% of all multifamily sales throughout Hennepin County and over 29% of all multifamily sales across the Twin Cities Metro Area since 2009.

TABLE 13
MULTIFAMILY SALE TRANSACTIONS
WOODDALE/VALLEY VIEW MARKET AREA
2009 through July 2014

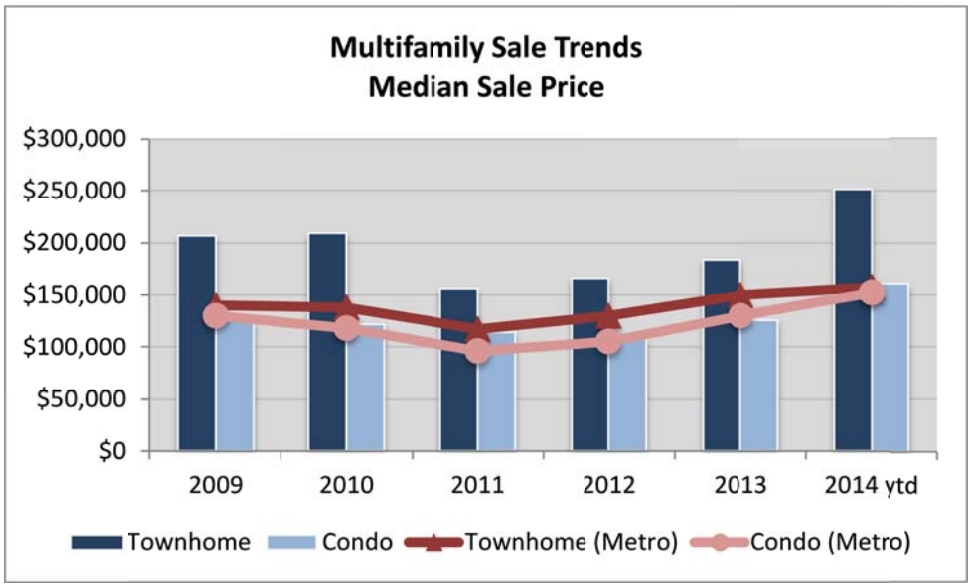
	2009		2010		2011		2012		2013		2014 ytd		'09 - '13
	Median Sale Price	# of Sales	Median Sale Price	# of Sales	Median Sale Price	# of Sales	Median Sale Price	# of Sales	Median Sale Price	# of Sales	Median Sale Price	# of Sales	% Change Sale Price
Townhouse Sales													
Market Area	**$206,807**	**196**	**$209,186**	**180**	**$156,072**	**204**	**$165,832**	**236**	**$183,396**	**274**	**$250,877**	**166**	**-11.3%**
Edina	**$318,500**	**31**	**$288,750**	**30**	**$293,650**	**31**	**$266,725**	**36**	**$340,000**	**34**	**$349,051**	**39**	**6.8%**
St. Louis Park	$176,000	51	$232,000	35	$110,000	53	$139,193	48	$156,625	68	$175,354	36	-11.0%
Richfield	$101,700	2	$178,500	2	$115,000	3	$139,000	7	$152,500	8	$259,000	1	50.0%
Bloomington	$156,250	105	$159,900	110	$137,900	114	$145,000	142	$157,900	160	$212,079	87	1.1%
SW Mpls (55410)	$725,000	7	$975,000	3	$280,000	3	$430,000	3	$388,990	4	$1,003,333	3	-46.3%
Hennepin County	$160,900	2,021	$160,000	1,706	$139,900	1,871	$150,000	2,091	$168,000	2,343	$176,467	1,346	4.4%
Twin Cities Metro	$140,000	7,666	$138,000	6,552	$117,000	7,182	$129,900	7,642	$150,000	8,521	$157,607	4,714	7.1%
Condominium Sales													
Market Area	**$125,897**	**498**	**$121,720**	**439**	**$113,905**	**518**	**$108,770**	**651**	**$125,713**	**731**	**$160,745**	**400**	**-0.1%**
Edina	**$131,500**	**194**	**$120,450**	**159**	**$112,000**	**168**	**$116,250**	**289**	**$146,250**	**317**	**$158,037**	**150**	**11.2%**
St. Louis Park	$126,450	120	$131,500	102	$130,000	158	$105,500	120	$106,500	154	$179,307	107	-15.8%
Richfield	$58,900	38	$49,900	28	$51,000	35	$56,333	41	$67,000	62	$86,835	24	13.8%
Bloomington	$131,000	120	$116,750	119	$110,000	125	$100,000	168	$114,000	170	$123,583	101	-13.0%
SW Mpls (55410)	$155,900	26	$180,000	31	$128,500	32	$164,950	33	$200,000	28	$380,042	18	28.3%
Hennepin County	$145,000	1,918	$134,500	1,640	$119,900	1,756	$126,100	2,224	$150,000	2,353	$178,820	1,428	3.4%
Twin Cities Metro	$130,000	2,928	$118,000	2,623	$96,000	2,784	$105,000	3,516	$130,000	3,493	$152,229	2,040	0.0%

Note: 2014 data through July; Twin Cities Metro represents the 7-County planning region

Sources: Minneapolis Area Association of Realtors; Maxfield Research, Inc.

- The 2013 the median sale price across the Market Area for townhome units was $183,396, substantially higher than the Twin Cities Metro Area ($150,000). Between 2009 and 2013, the median townhome price declined -11.3% in the Market Area communities, compared to a 7.1% increase in the Twin Cities. Through the first seven months of 2014, townhome pricing jumped 37% to $250,877 in the Market Area and 5.1% to $157,607 in the Metro.

- Similar to the townhome market, condominium pricing had yet to fully-recover by the end of 2013, as the median sale price in the Market Area ($125,713) was down -0.1% from 2009. The median sale price for condos across the Twin Cities was at $130,000 in both 2013 and 2009. However, based on data through July 2014, condominium pricing climbed to $160,745 in the Market Area (+28% from 2013) and $152,229 in the Metro Area (+17%).



- Condominium pricing in the Market Area communities has been fairly consistent with pricing across the Twin Cities, with a median sale price that has run 3.5% higher than the Twin Cities median on average. However, townhome pricing in the Market Area communities has been 40.8% higher than the Metro Area on average since 2009. Within the Market Area, Bloomington has been the most active market since 2009 with 1,521 multifamily sale transactions (34% of all Market Area sales), followed closely by Edina with 1,478 sales (33%).

- Condominium sales represented over 86% of Edina's multifamily sale transactions since 2009, with 1,277 sales compared to 201 townhome sales. Nearly 40% of all Market Area condominium sales occurred in the City of Edina since 2009. With a median sale price of $146,250 in 2013, condominiums in Edina are priced roughly 16% higher than the Market Area and 13% higher the Metro Area. Based on the escalating number of condominium sales in Edina along with recent increases in the median sale price, it appears that Edina's condominium market is in recovery and there is growing demand in the City.

For-Sale Housing Market Demand Analysis

Table 14 presents our demand calculations for general occupancy for-sale multifamily housing in the Market Area between 2014 and 2020. The analysis identifies potential demand for general occupancy for-sale housing that is generated from both new households and turnover households.

- According to our projections, the PMA is expected to grow by 4,589 households between 2014 and 2020. Because the 65 and older cohort is typically not a target market for new general occupancy for-sale housing, we limit demand from household growth to only those households under the age of 65. In the PMA, roughly 12% of the projected household growth will occur among households age 64 and younger which results in projected demand for 551 general occupancy for-sale units. The 65 and older age group will generate some for-sale housing demand, especially for multifamily townhome or condominium units in an age-restricted community. However, a portion of the demand generated by the 65 and older cohort could potentially be satisfied by general occupancy for-sale multifamily housing units.

- Based on household tenure data from the US Census, we expect that 63% of the demand will be for owner-occupied housing units, equating to a potential 347 owner households from household growth. An additional proportion is added for households that would move into ownership housing in the PMA who currently reside outside the area. We estimate that 25% of the demand potential for general occupancy ownership housing would be derived from outside the PMA, increasing demand from household growth to 463 units.

- As of 2014, there are approximately 48,287 owner households under the age of 65 in the PMA. Based on household turnover data from the 2012 American Community Survey, we estimate that 21% of these under-65 owner households will experience turnover between 2014 and 2020. This estimate results in anticipated turnover of approximately 10,140 existing households by 2020.

- We then estimate the percent of existing owner households turning over that would prefer to purchase new housing. In the communities comprising the PMA, roughly 4% of all home sales were for new construction since 2007, while roughly 6% of all sales in Edina and 8% of sales across the Twin Cities Metro Area were for new homes during the same time period. Considering the age of the PMA's housing stock along with recent sales activity, we estimate that 10% of the households turning over in the PMA would desire new housing. This estimate results in demand from existing households for 1,014 new residential units in the PMA between 2014 and 2020. Total demand from household growth and existing household turnover between 2014 and 2020 equates to 1,477 new for-sale general occupancy housing units.

- Based on new construction sales data from 2007 to present in Edina and the other communities comprising the PMA, we estimate that 35% of the householders seeking new housing in the PMA will desire detached single-family housing, while the remaining 65% will be seeking multifamily units. We anticipate that there will be demand for approximately 960 general occupancy for-sale multifamily units in the PMA between 2014 and 2020.

- We anticipate that the Study Area could support roughly 10% of the PMA demand potential for new general occupancy for-sale multifamily housing, resulting in demand for approximately 96 new multifamily units between 2014 and 2020.

TABLE 14
GENERAL OCCUPANCY FOR-SALE HOUSING DEMAND
PRIMARY MARKET AREA
2014 to 2020

DEMAND FROM PROJECTED HOUSEHOLD GROWTH		
Projected household growth in the PMA 2014 to 2020[1]		4,589
(times) Pct. of HH growth for general occupancy housing[2]	x	12%
(equals) Projected demand for general occupancy units	=	551
(times) Propensity to Own[3]	x	63%
(equals) Number of potential owner households from HH growth	=	347
(times) Ownership demand generated from outside Market Area	+	25%
(equals) Total demand potential for ownership housing in Market Area	=	463
DEMAND FROM EXISTING OWNER HOUSEHOLDS		
Number of owner households (age 64 and younger) in Market Area, 2014	=	48,287
(times) Estimated % of owner turnover (age 64 and younger, 2014 to 2020)[4]	x	21%
(equals) Total existing households projected to turnover between 2014 and 2020	=	10,140
(times) Estimated % desiring new owner housing	x	10%
(equals) Demand from existing households	=	1,014
Total Demand From Household Growth and Existing Households, 2014 to 2020	**=**	**1,477**
		Multifamily
(times) Percent desiring for-sale multifamily housing[5]	x	65%
(equals) Total demand potential for new for-sale multifamily housing	**=**	**960**
(times) Percent capturable on Site	x	10%
(equals) Number of housing units supportable on Site	**=**	**96**

[1] Estimated household growth based per ESRI, Met Council, and Maxfield Research Inc.
[2] Pct. of household growth under age 65
[3] Pct. Owner households under age 65 in 2010
[4] Based on household turnover and mobility data (2012 American Community Survey, Five Year Estimates).
[5] Based on new construction sales data from 2007 to present
[*] Multifamily demand includes demand for townhomes, twinhomes, and condominium units.

Source: Maxfield Research Inc.

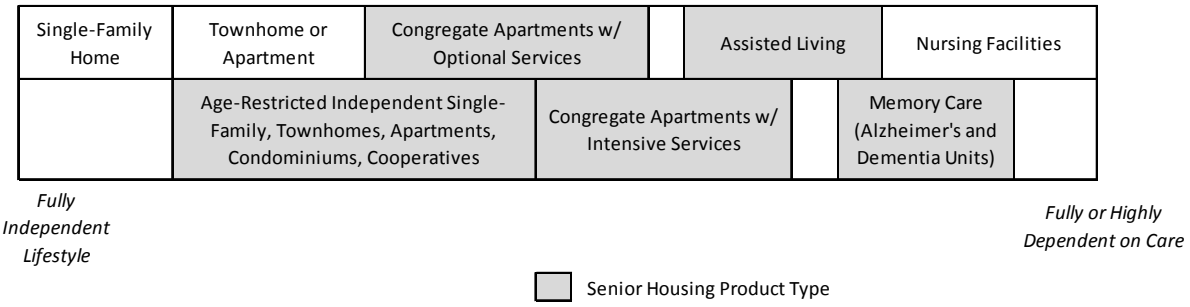
Senior Housing Market Analysis

This section provides an assessment of the market support for senior housing (active adult, congregate, assisted living, and memory care) in the Study Area. An overview of the demographic and economic characteristics of the senior population in the PMA is presented along with an inventory of existing and pending senior housing developments in the PMA. Demand for senior housing is calculated based on demographic, economic and competitive factors that would impact demand for additional senior housing units in Edina.

Senior Housing

Senior housing is a concept that generally refers to the integrated delivery of housing and services to seniors. However, as Figure 1 illustrates, senior housing embodies a wide variety of product types across the service-delivery spectrum. Products range from independent apartments and/or townhomes with virtually no services on one end, to highly specialized, service-intensive assisted living units or housing geared for people with dementia-related illnesses (termed "memory care") on the other end of the spectrum. In general, independent senior housing attracts people age 65 and over while assisted living typically attracts people age 80 and older who need assistance with activities of daily living (ADLs). For analytical purposes, Maxfield Research Inc. classifies market rate senior housing into five categories based on the level and type of services offered.

FIGURE 1
CONTINUUM OF HOUSING AND SERVICES FOR SENIORS



Source: Maxfield Research Inc.

- **Active Adult** properties (or independent living without services available) are similar to a general-occupancy building, in that they offer virtually no services but have age-restrictions (typically 55 or 62 or older). Residents are generally age 70 or older if in an apartment-style building. Organized entertainment, activities and occasionally a transportation program represent the extent of services typically available at these properties. Because of the lack of services, active adult properties generally do not command the rent premiums of more service-enriched senior housing. Active adult properties can have a rental or owner-occupied (condominium or cooperative) format.

- **Congregate** properties (or independent living with services available) offer support services such as meals and/or housekeeping, either on an optional basis or a limited amount included in the rents. These properties often dedicate a larger share of the overall building area to common areas, in part, because the units are smaller than in adult housing and in part to encourage socialization among residents. Congregate properties attract a slightly older target market than adult housing, typically seniors age 75 or older. Rents are also above those of the active adult buildings. Sponsorship by a nursing home, hospital or other health care organization is common.

- **Assisted Living** properties come in a variety of forms, but the target market for most is generally the same: very frail seniors, typically age 80 or older (but can be much younger, depending on their particular health situation), who are in need of extensive support services and personal care assistance. Absent an assisted living option, these seniors would otherwise need to move to a nursing facility. At a minimum, assisted living properties include two meals per day and weekly housekeeping in the monthly fee, with the availability of a third meal and personal care (either included in the monthly fee or for an additional cost). Assisted living properties also have either staff on duty 24 hours per day or at least 24-hour emergency response.

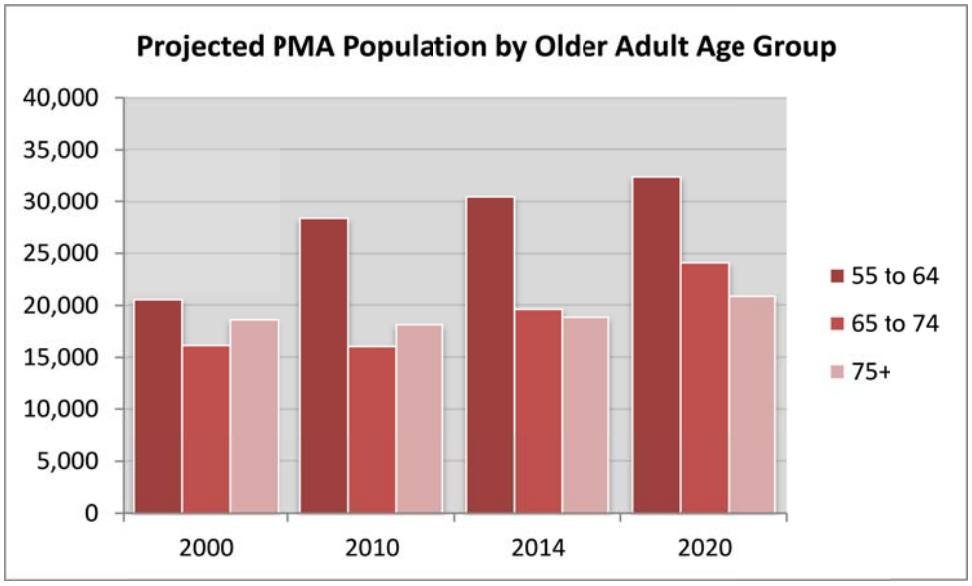
- **Memory Care** properties, designed specifically for persons suffering from Alzheimer's disease or other dementias, is one of the newest trends in senior housing. Properties consist mostly of suite-style or studio units or occasionally one-bedroom apartment-style units, and large amounts of communal areas for activities and programming. In addition, staff typically undergoes specialized training in the care of this population. Because of the greater amount of individualized personal care required by residents, staffing ratios are much higher than traditional assisted living and thus, the costs of care are also higher. Unlike conventional assisted living, however, which addresses housing needs almost exclusively for widows or widowers, a higher proportion of persons afflicted with Alzheimer's disease are in two-person households. That means the decision to move a spouse into a memory care facility involves the caregiver's concern of incurring the costs of health care at a special facility while continuing to maintain their home.

- **Skilled Nursing Care**, or long-term care, provides a living arrangement that integrates shelter and food with medical, nursing, psychosocial and rehabilitation services for persons who require 24-hour nursing supervision. Residents in skilled nursing homes can be funded under Medicare, Medicaid, Veterans, HMOs, insurance as well as use of private funds.

Older Adult (Age 55+) Population and Household Trends

The Demographic Analysis section of this study presented general demographic characteristics of the PMA population. The following points summarize key findings from that section as they pertain to the older adult population in the Market Area.

- The greatest growth is projected to occur among older adults in the Market Area. Aging of baby boomers led to an increase of nearly 7,900 people (+38%) in the 55 to 64 population between 2000 and 2010 in the PMA. As this group ages, all cohorts age 55 or greater are expected to see increases over the next several years, particularly the 65 to 74 age group which is projected to grow 23% in the PMA between 2014 and 2020.



- The primary market for service-enhanced housing is senior households age 75 and older. While individuals in their 50s and 60s typically do not comprise the market base for service-enhanced senior housing, they often have elderly parents to whom they provide support when they decide to relocate to senior housing. Since elderly parents typically prefer to be near their adult caregivers, growth in the older adult age cohort (age 55 to 64) generally results in additional demand for senior housing products.

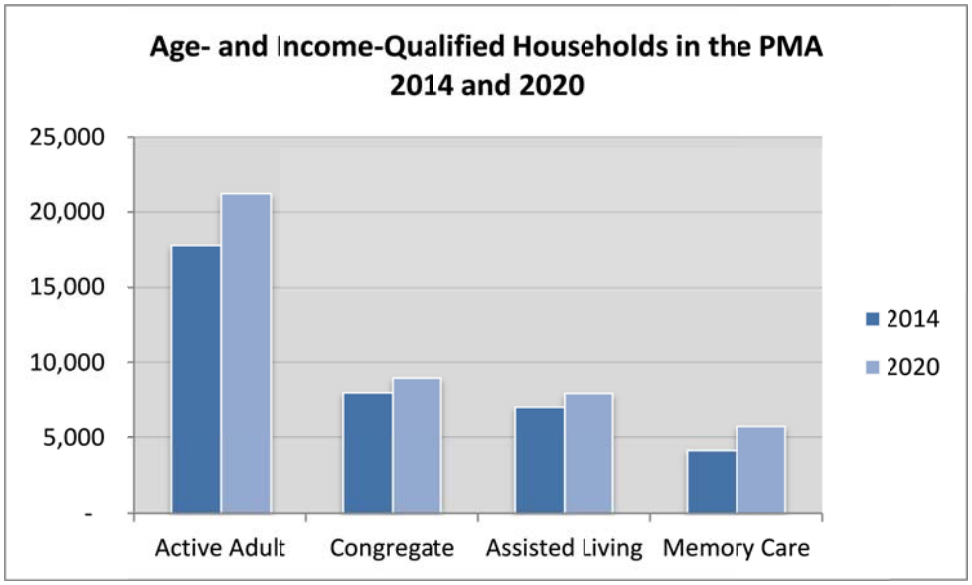
- The frailer the senior, the greater the proportion of their income they will typically spend on housing and services. Studies have shown that seniors are willing to pay increasing proportions of their incomes on housing with services, beginning with an income allocation of 40% to 50% for market rate adult senior housing with little or no services, increasing to 65% for congregate housing and to 80% to 90% or more for assisted living housing. The proceeds from the sales of their homes, as well as financial assistance from their adult children, are often used as supplemental income in order to afford senior housing alternatives.

- The key market for active adult/few services housing is comprised of senior households (age 65+), with incomes of $35,000 or more. The age threshold increases to 70+ if in an apartment-style building. In 2014, we estimate there are roughly 17,800 age- and income-qualified households in the PMA that comprise the key market for active adult housing. Including all households with incomes of $40,000 and over (adjusted for inflation), the number of 65+ senior households projected to income-qualify for active adult/few services housing is expected to grow to over 21,200 households in 2020 (+19%).

- Congregate housing demand is driven by senior households (age 75+) with incomes of $35,000 or more. We estimate the number of age- and income-qualified households in the PMA to be about 8,000 householders in 2014, increasing to nearly 9,000 (+12%) householders in 2020.

- The target market for assisted living housing is senior households age 75 and older with incomes of at least $40,000 (plus senior homeowners with lower incomes). As of 2014, there are about 7,000 older senior households (age 75+) in the PMA with incomes of at least $40,000, accounting for nearly 54% of all older senior households. Including all households with incomes of $45,000 and over (adjusted for inflation), the number of older senior households projected to income-qualify for senior housing with services is expected to grow to 7,950 households in 2020 (+13%).

- Memory care housing has a target market of senior households age 65 and older with a memory impairment and incomes of at least $60,000. In 2014, we estimate that there are approximately 11,140 age 65+ households in the PMA with incomes of at least $60,000, accounting for 43% of all senior households. The number of income-qualified ($65,000 adjusted for inflation) households is projected to increase to over 15,780 by 2020 (+42%). We estimate that roughly 15% of the senior population has a memory impairment.



Homeownership information lends insight into the number of households that may still have homes to sell and could potentially supplement their incomes from the sales of their homes to support monthly fees for alternative housing.

- The PMA maintains high rates of homeownership in the older adult age cohorts. The homeownership rate in 2010 was 82% for age 55 to 64 households compared to 83% throughout the Twin Cities. The PMA homeownership rate inches up to 84% for age 65 to 74 households compared to 83% in the Metro Area. Seniors typically begin to consider moving into senior housing alternatives in their early to mid-70s. This movement pattern is demonstrated by the drop in homeownership between the 65 to 74 age cohort (84%) and the 75+ age cohort (71%). This pattern is similar throughout the Metro Area as the homeownership rate dropped from 83% (age 65 to 74) to 69% (age 75+).

- With a homeownership rate of 77% for all households over the age of 65, a large number of residents would be able to use proceeds from the sales of their homes toward senior housing alternatives. The resale of single-family homes would allow additional senior households to qualify for market rate housing products, since equity from the home sale could be used as supplemental income for alternative housing. These considerations are factored into our demand calculations.

- Home sale data is useful in that it represents the amount of equity seniors may be able to derive from the sales of their homes that could be used to cover the cost of senior housing alternatives. Because seniors are typically not a target market for new single-family home construction and seniors generally have lived in their homes for at least a decade or more, we reviewed sales data for single-family homes built before 2000.

- Based on the 2013 median sale price for single-family homes built before 2000 in the communities comprising the PMA ($243,000), a senior household could generate approximately $3,880 of additional income annually (about $324 per month), if they invested in an income-producing account (2.0% interest rate) after accounting for marketing costs and/or real estate commissions (6.0% of home sale price). Should a senior utilize the home proceeds dollar for dollar to support living in senior housing with services, the proceeds of the home sale would last nearly eight years in congregate housing (monthly rent approximated at $2,000), over four years in assisted living (monthly rent approximated at $3,500), or over three years in memory care housing (monthly rent approximated at $4,500). Seniors in service-intensive housing typically have lengths of stays between two and three years indicating that a large portion of PMA seniors will be financially prepared to privately pay for their housing and services.

Supply of Senior Housing in the PMA

Table 15 shows an inventory of existing market rate senior housing products located in the PMA that would be competitive with a senior housing development in the Study Area. In total, we identified nearly 4,000 senior housing units in the PMA.

- Approximately 10% of the senior housing units (390 units) are in active adult properties. The remaining 90% are service-enhanced units, including 2,506 congregate living units (63% of the total) in 19 properties. There are also 783 assisted living units (20%) in 14 properties and 287 memory care units (7%) in 12 properties.

- There are a total of 1,471 senior housing units located in Edina, roughly 9% of which are active adult, 64% are congregate, 20% are assisted living, and 7% are memory care units. In total, Edina contains 37% of the PMA's senior housing supply.

- With 906 units, the area of Bloomington west of I-35W contains 23% of the PMA's senior housing units, while 20% (798 units) are located in St. Louis Park, 11% (422 units) are in the portion of southwest Minneapolis situated in the PMA, and 9% (369 units) are in Hopkins.

- We incorporate these existing senior housing units into our demand calculations presented later in this report, but not all units are included. Because many of the facilities are located near the edges of our PMA boundary, those facilities would have a draw area that overlaps with the PMA for a potential project in the Study Area. As such, we adjust the number of competitive units based on the location of the property within the PMA.

    - We consider all of the projects located in the City of Edina to be competitive with a possible project in the Study Area, so we include 100% of the units in our demand calculations.

    - We only include 50% of the units located in Hopkins and the area of St. Louis Park north of Highway 7, as these facilities would pull a significant proportion of residents from areas to the north and west (i.e. Golden Valley and Minnetonka). Similarly, we include 50% of the units in Minneapolis, as most of the facilities are situated east of the chain of lakes.

    - Facilities in west Bloomington will draw residents from Eden Prairie and east Bloomington, but the draw area is somewhat limited by the Minnesota River. As such, we include 75% of the units located in west Bloomington in the demand calculations.

TABLE 15
MARKET RATE SENIOR HOUSING PROPERTIES
PRIMARY MARKET AREA
September 2014

Development	City	Year Built	Type	Total Units
Active Adult/Few Services				
Summerhill of Bloomington	Bloomington	2002	Cooperative	40
Masonic Square I	Bloomington	1991	Rental	28
Masonic Square II	Bloomington	1995	Rental	28
Gramercy Club of Edina	Edina	2007	Cooperative	128
Aquila Commons Cooperative	St. Louis Park	2006	Cooperative	106
Village in the Park Condominiums	St. Louis Park	2006	Ownership	60
Total				**390**
Congregate (Independent Living with Services Available)				
Nine Mile Creek	Bloomington	2010	Rental	40
Presbyterian Homes of Bloomington	Bloomington	1986	Rental	101
Friendship Village Townhomes	Bloomington	1998	Rental	12
Friendship Village LifeCare	Bloomington	1979	Rental	297
Founders Ridge	Bloomington	2012	Rental	55
Vernon Terrace	Edina	1988	Rental	145
Edina Park Plaza	Edina	1987	Rental	205
Heritage of Edina	Edina	1965	Rental	260
7500 York Cooperative	Edina	1980	Cooperative	338
Chapel View	Hopkins	1986	Rental	56
St. Therese Southwest	Hopkins	1986	Rental	227
Kenwood Isles	Minneapolis	1985	Ownership	132
Walker Place	Minneapolis	1985	Rental	135
Walker Tree Tops	Minneapolis	1988	Rental	100
Parkshore Place	St. Louis Park	1988	Rental	207
Knollwood Place	St. Louis Park	1987	Rental	153
Tower Light on Wooddale	St. Louis Park	2012	Rental	43
Total				**2,506**
Assisted Living				
Nine Mile Creek	Bloomington	2010	Rental	39
Friendship Village (The Aspen)	Bloomington	2003	Rental	26
Heritage Hall	Bloomington	1994	Rental	46
Presbyterian Homes of Bloomington	Bloomington	1993	Rental	86
Founders Ridge	Bloomington	2012	Rental	32
Sunrise of Edina	Edina	1999	Rental	73
Walker Elder Suites	Edina	1992	Rental	72
York Gardens	Edina	2011	Rental	47
Waters Senior Living	Edina	2013	Rental	97
Terraces of St. Therese Southwest	Hopkins	2003	Rental	61
Jones Harrison Residence	Minneapolis	1992	Rental	55
Roitenberg Family	St. Louis Park	2002	Rental	52
Parkwood Shores	St. Louis Park	2001	Rental	68
Tower Light on Wooddale	St. Louis Park	2012	Rental	29
Total				**783**

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TABLE 15 continued
MARKET RATE SENIOR HOUSING PROPERTIES
PRIMARY MARKET AREA
September 2014

Development	City	Year Built	Type	Total Units
Memory Care				
Nine Mile Creek	Bloomington	2010	Rental	14
Presbyterian Homes of Bloomington	Bloomington	2005	Rental	18
Friendship Village (Red Pine)	Bloomington	2003	Rental	25
Founders Ridge	Bloomington	2012	Rental	19
English Rose Suites I-V	Edina	2005	Rental	30
Sunrise of Edina	Edina	1999	Rental	19
York Gardens	Edina	2011	Rental	15
Waters Senior Living	Edina	2013	Rental	42
Terraces of St. Therese Southwest	Hopkins	2003	Rental	25
Roitenberg Family	St. Louis Park	2002	Rental	24
Parkwood Shores	St. Louis Park	2002	Rental	23
Tower Light on Wooddale	St. Louis Park	2012	Rental	33
Total				**287**

Source: Maxfield Research Inc.

Pending Senior Housing Developments in the PMA

In order to assess future competition for a potential project in the Study Area, Maxfield Research contacted staff from communities in the PMA to learn of any senior housing developments under construction or planned that may impact senior housing demand in the Market Area. We identified six pending projects with a total of 484 senior housing units in the PMA. These projects are summarized in in the following points.

- Aurora on France, located at 6500 France Avenue in Edina, contains 195 senior housing and care units, including 111 congregate and assisted living units, 32 memory care units, 34 skilled nursing beds, and 18 care suites. These units are incorporated into our demand calculations presented later in this report.

- Also in Edina, the City is reviewing plans for Continental Gardens Senior Living, a 100-unit senior housing project to be located west of the existing Yorktown Continental Senior Living subsidized apartments at 7151 York Avenue. As proposed, the new facility will consist of 70 assisted living units and 30 memory care units, and 10% of all units would be for residents below 50% of Area Median Income. Due to the preliminary nature of this project, we do not include these units in our demand calculations.

- Gateway Assisted Living is a three-story 22-unit facility nearing construction completion at 7115 Wayzata Boulevard in St. Louis Park. The facility contains 12 assisted living units and

10 memory care units. Because of its location within the PMA, we include 50% of the units in our demand calculations.

- Located at 3500 West 50th Street in Minneapolis, The Waters on 50th recently opened and is still in initial lease-up. This facility consists of 90 senior housing units, 69 of which are assisted living units and 21 are memory care units. Due to the relatively close proximity of this project to the Study Area, we include 100% of the units in our demand calculations.

- Applewood Pointe Valley West is a 77-unit active adult cooperative under construction at 3601 West Old Shakopee Road in Bloomington. The project is expected to open in 2015. We include 75% of these units in our demand calculations.

- Founders Ridge phases II, III and IV, located at 660 Auto Club Road in Bloomington will consist of 40 congregate units, 75 assisted living units, and 19 memory care units. This project was originally approved by the Bloomington City Council in 2010, but no construction permits have been issued. Because of the uncertain timing of this project, we do not include this planned development in our demand calculations.

Market Rate Adult/Few Services Senior Housing Demand

Table 16 presents our demand calculations for market rate active adult/few services housing in the PMA in 2014 and 2020. The market for active adult/few services housing is comprised of older adult (age 55 to 64), younger senior (age 65 to 74) and older senior (age 75+) households, with market demand weighted most heavily toward older seniors. In order to arrive at the potential age-, income- and asset-qualified base for active adult housing, we include all age-qualified households with incomes of $35,000 or more plus homeowner households with incomes between $25,000 and $34,999 who would qualify with the proceeds from a home sale. The number of qualifying homeowner households is estimated by applying the appropriate homeownership rate to each age cohort. We estimate there are 36,537 age-, income- and asset-qualified PMA households that comprise the market for active adult housing in 2014, increasing to 41,144 qualified households in 2020.

Adjusting to include appropriate capture rates for each age cohort (0.5% of households age 55 to 64, 5.0% of households age 65 to 74, and 12.0% of households age 75 and older) results in a demand potential for 1,730 active adult housing units in 2014 and 1,971 units in 2020. These capture rates reduce the total number of age/income/asset-qualified households to consider only the portion of older adult and senior households who would be able, willing, and inclined to move to senior housing alternatives, including both owner- and renter-occupied housing.

We estimate that seniors currently residing outside the PMA will generate 25% of the demand for active adult housing – increasing demand to 2,307 active adult units in 2014. Demand from outside the PMA includes parents of adult children living in the area, individuals who live

outside the PMA but have an orientation to the area, and former residents who desire to return upon retirement.

From the demand potential, we subtract existing and pending active adult units in the PMA at 95% occupancy. Overall, we subtract 325 competitive units from the 2014 demand potential after accounting for a 5% vacancy rate and adjusting the number of competitive units based on distance from the Study Area. We then add in the pending active adult units in the PMA, and subtract the total from the 2020 demand potential.

In total, we find excess demand for 1,982 active adult units in 2014. Adjusting for inflation, we estimate that households with incomes of $35,000 or more and home-owners with incomes of $25,000 to $34,999 would be candidates for active adult housing in 2020. Following the same methodology, we project that excess demand will increase to 2,248 active adult units by 2020.

No single site can capture all of the potential demand in a PMA. We estimate that a quality site located in the Study Area could capture roughly 5% of the excess demand for a total of 99 active adult units in 2014, increasing to 112 units in 2020.

TABLE 16
MARKET RATE ADULT/FEW SERVICES HOUSING DEMAND
PRIMARY MARKET AREA
2014 & 2020

		2014				2020		
		Age of Householder				Age of Householder		
		55-64	65-74	75+		55-64	65-74	75+
# of Households w/ Incomes of >$35,000[1]		15,682	9,779	8,007		17,138	12,260	8,967
# of Households w/ Incomes of $25,000 to $34,999[1]	+	1,116	1,038	1,805	+	816	1,030	1,753
(times) Homeownership Rate	x	82%	84%	71%	x	82%	84%	71%
(equals) Total Potential Market Base	=	16,597	10,651	9,289	=	17,807	13,125	10,212
(times) Potential Capture Rate	x	0.5%	5.0%	12.0%	x	0.5%	5.0%	12.0%
(equals) Demand Potential	=	83	533	1,115	=	89	656	1,225
Potential Demand from PMA Residents		=	**1,730**			=	**1,971**	
(plus) Demand from Outside PMA (25%)[2]		+	577			+	657	
(equals) Total Demand Potential		=	**2,307**			=	**2,628**	
(minus) Existing and Pending MR Active Adult Units[3]	-		325		-		380	
(equals) Excess Demand for MR Active Adult Units	=		**1,982**		=		**2,248**	
(times) Percent capturable on a Study Area Site	x		5%		x		5%	
(equals) # of units supportable on a Site	=		**99**				**112**	

[1] 2020 calculations define income-qualified households as all households with incomes greater than $40,000 and homeowner households with incomes between $30,000 and $39,999.
[2] Based on interviews and historical trends. We estimate that roughly 25% of demand will come from outside the PMA.
[3] Existing and pending are deducted at market equilibrium (95% occupancy).

Source: Maxfield Research Inc.

Demand for Congregate Senior Housing

Table 17 presents our demand calculations for congregate living senior housing in the Primary Market Area in 2014 and 2020. This analysis focuses on the potential private pay/market rate demand for congregate living units in the Primary Market Area. In order to arrive at the potential age-income qualified base for congregate senior housing, we include all senior households with incomes of $35,000 or more and homeowners with incomes between $25,000 and $35,000 who would qualify with the proceeds from a home sale (this proportion was estimated based on the homeownership rates for each age cohort). We estimate the number of age/income/asset-qualified households in the Market Area to be 19,939 householders as of 2014, increasing to 23,337 in 2020.

Demand for congregate housing is need-driven, which reduces the qualified market to only the portion of seniors who need some assistance. Thus, the age/income-qualified base is multiplied by the percentage of seniors who need some assistance with IADLs (at least three), but not six or more ADLs/IADLs, as these frailer seniors would need the level of care found in service-intensive assisted living. According to the Summary Health Statistics of the U.S. Population: National Health Interview Survey, 2007 (conducted by the U.S. Department of Health and Human Services), the percentage of seniors having limitation in activities of daily living (bathing, dressing, toileting, transferring, eating) and instrumental activities of daily living (using the telephone, shopping, food preparation, housekeeping, laundry, transportation, taking medication, handling finances) are as follows:

Limitation in ADLs & IADLs

Age	ADLs	IADLs
65-74 years	3.3%	6.3%
75+ years	11.0%	20.0%

It is most likely that seniors who need assistance with ADLs also need assistance with multiple IADLs, and are more likely to be candidates for service-intensive assisted living. The prime candidates for congregate living are seniors needing assistance with IADLs, but not ADLs. We derive the capture rate for congregate housing by subtracting the percentage of seniors needing assistance with ADLs from those needing assistance with IADLs, which equates to 3.0% of seniors age 65 to 74 and 9.0% of seniors 75+. For the purposes of this report and understanding that many seniors do not view senior housing as an alternative retirement destination but a supportive living option only when they can no longer live independently, we have reduced the potential capture rates for the 65 to 74 age group to 1.5% while increasing the capture rate of the 75+ age group to 13.0%. Multiplying the senior household base by these capture rates results in Market Area demand potential for 1,367 congregate housing units in 2014 and 1,524 units in 2020.

We estimate that seniors currently residing outside the Market Area will generate 25% of the demand for congregate senior housing – increasing total demand by 456 congregate units in

2014. This demand consists primarily of parents of adult children living in the Market Area, individuals who live just outside the Market Area and have an orientation to the area, retirees who wish to relocate to the area and former residents who want to return upon retirement. Together, the demand from Market Area seniors and demand from seniors who would relocate to the Market Area totals about 1,823 congregate units as of 2014 and 2,033 units in 2020.

Next, existing congregate units are subtracted from overall demand. Overall, we subtract 1,879 competitive units from the demand potential after accounting for a 5% vacancy rate and adjusting the number of competitive units based on distance from the Study Area. The existing supply of congregate units in the PMA exceeds the demand potential, resulting in essentially no excess demand potential in 2014 and minimal demand potential in 2020. We preliminarily estimate that a project in the Study Area could capture roughly 5% of the PMA excess congregate housing demand. However, because there is limited excess demand potential in 2014 and in 2020, we do not believe that a project in the Study Area could support any congregate units.

TABLE 17
CONGREGATE LIVING DEMAND
PRIMARY MARKET AREA
2014 & 2020

		2014			2020	
		Age of Householder			Age of Householder	
		65-74	75+		65-74	75+
# of Householders w/ Incomes of $35,000+ in 2014 / $40K in 2020		9,779	8,007		12,260	8,967
(plus)	+			+		
# of Hhldrs w/ Incomes of $25K - $35K in 2014 / $30K - $40K in 2020		1,038	1,805		1,030	1,753
(times) Homeownership Rate	x	84%	71%	x	84%	71%
(equals) Potential Market	=	872	1,282	=	865	1,245
(equals) Total Potential Market Base	=	10,651	9,289	=	13,125	10,212
(times) Potential Capture Rate of Congregate Living Demand[1]	x	1.5%	13.0%	x	1.5%	13.0%
(equals) Potential Demand	=	160	+ 1,208	=	197	+ 1,328
Total Local Demand Potential		=	1,367		=	1,524
(plus) Demand from Outside the PMA (25%)		+	456		+	508
(equals) Total Demand Potential		=	1,823		=	2,033
(minus) Existing Competitive Units[2]		-	1,879		-	1,933
(equals) Excess Congregate Demand Potential		**=**	**0**		**=**	**100**
(times) Proportion Capturable on a Study Area Site		x	5%		x	5%
(equals) Excess Congregate Demand Potential on a Site		=	**0**		=	**5**

[1] The potential capture rate is derived from data from the Summary Health Statistics for the U.S. Population: National Health Interview Survey, 2007 by the U.S. Department of Health and Human Services. The capture rate used is the percentage of seniors needing assistance with IADLs, but not ADLs (seniors needing assistance with ADLs typcially need assistance with multiple IADLs and are primary candidates for service-intensive assisted living.).

[2] Competitive existing and pending units at 95% occupancy (market equilibrium).

Source: Maxfield Research Inc.

Assisted Living Demand Estimate

Table 18 presents our demand calculations for assisted living housing in the PMA in 2014 and 2020. This analysis focuses on the potential *private pay/market rate* demand for assisted living units in the PMA.

The availability of more intensive support services such as meals, housekeeping and personal care at assisted living facilities usually attracts older, frailer seniors. According to the 2009 Overview of Assisted Living (which is a collaborative research project by the American Association of Homes and Services for the Aging, the American Seniors Housing Association, National Center for Assisted Living, and National Investment Center for the Seniors Housing and Care Industry), the average age of residents in freestanding assisted living facilities was 87 years in 2008. Hence, the age-qualified market for assisted living is defined as seniors ages 75 and over, as we estimate that of the half of demand from seniors under age 87, almost all would be over age 75. In 2014, there are an estimated 18,854 seniors ages 75 and over in the PMA and we project that this number will increase to 20,875 in 2020.

Demand for assisted living housing is need-driven, which reduces the qualified market to only the portion of seniors who need assistance. According to a study completed by the U. S. Census Bureau (1990 & 1991 panels of the Survey of Income and Program Participation (SIPP) files), about 30% of seniors needed assistance with everyday activities (from 19.5% of 75-to-79-year-olds, to 31.2% of 80-to-84-year-olds and 49.5% of 85+ year olds). Applying these percentages to the senior population yields a potential assisted living market of an estimated 6,484 seniors in the PMA in 2014 and 7,074 in 2020.

Due to the supportive nature of assisted living housing, most daily essentials are included in monthly rental fees which allow seniors to spend a higher proportion of their incomes on housing with basic services. Therefore, the second step in determining the potential demand for assisted living housing in the PMA is to identify the income-qualified market based on a senior's ability to pay the monthly rent. We consider seniors in households with incomes of $40,000 or greater to be income-qualified for assisted living senior housing in the PMA.

Households with incomes of $40,000 could afford monthly assisted living fees of $3,000 by allocating a high proportion of their income toward the fees. According to the 2009 Overview of Assisted Living, the average arrival income of assisted living residents in 2008 was $27,260, while the average annual assisted living fee was $37,281 ($3,107/month). This data highlights that seniors are spending down assets to live in assisted living and avoid institutional care. Thus, in addition to households with incomes of $40,000 or greater, there is a substantial base of senior households with lower incomes who income-qualify based on assets – their homes, in particular.

Seventy-one percent of age 75+ households in the PMA are homeowners and the 2013 median sale price for single-family homes built before 2000 in the PMA was $243,000. Seniors selling

their homes for the median price would generate about $194,000 in proceeds after selling costs. With an average monthly fee of $3,500, these proceeds would last over four years (55 months) in assisted living housing, which is longer than the average length of stay in assisted living (20 months according to the 2009 Overview of Assisted Living).

For the age groups in Table 18, we estimate the income-qualified percentage to be all seniors in households with incomes at or above $40,000 (who could afford monthly rents of $3,000+ per month) plus 40% of the estimated seniors in owner households with incomes below $40,000 (who will spend down assets, including home-equity, in order to live in assisted living housing). This results in a total potential market for about 3,955 units from the PMA as of 2014.

Because the vast majority of assisted living residents are single (88% according to the 2009 Overview of Assisted Living), our demand methodology multiplies the total potential market by the percentage of seniors age 75+ in the PMA living alone, or 58% based on Census data. This results in a total base of about 2,294 age/income-qualified singles. The 2009 Overview of Assisted Living found that 12% of residents in assisted living were couples. Including couples results in a total of 2,607 age/income-qualified seniors needing assistance in the PMA in 2014.

We estimate that 60% of the qualified market needing significant assistance with ADLs could either remain in their homes or less service-intensive senior housing with the assistance of a family member or home health care, or would need greater care provided in a skilled care facility. The remaining 40% could be served by assisted living housing. Applying this market penetration rate of 40% results in demand for 1,043 assisted living units in 2014.

We estimate that a portion of demand for assisted living units in the PMA (25%) will come from outside the PMA. This secondary demand includes seniors currently living just outside the PMA, former residents, and parents of adult children who desire supportive housing near their adult children. Applying this figure results in total potential demand for 1,390 assisted living units in 2014.

Next, existing assisted living units are subtracted from overall demand. There are 14 existing properties in the PMA with a total of 783 assisted living units. However, we adjust the number of competing units based on location and exclude estimated units occupied by low-income seniors utilizing Elderly Waivers (129 units). After subtracting the existing units (minus a 7% vacancy factor) from the total demand equals an excess demand potential for 913 assisted living units in the PMA in 2014. Following this same methodology and adding in pending units, we project that total excess demand in the PMA will climb to 943 units in 2020.

No single site can capture all of the potential demand in a PMA. We estimate that a quality site in the Study Area could capture 5% of the excess assisted living demand potential for a total of 46 assisted living units in 2014. Projected growth in the age- and income-qualified population will be offset by the addition of new assisted living units in the PMA, and the amount of demand capturable on a site in the PMA will essentially remain unchanged in 2020.

TABLE 18
MARKET RATE ASSISTED LIVING DEMAND
PRIMARY MARKET AREA
2014 & 2020

	2014			2020		
Age group	People	Percent Needing Assistance[1]	Number Needing Assistance[1]	People	Percent Needing Assistance[1]	Number Needing Assistance[1]
75 - 79	6,236	19.5%	**1,216**	7,409	19.5%	**1,445**
80 - 84	5,345	31.2%	**1,668**	5,663	31.2%	**1,767**
85+	7,273	49.5%	**3,600**	7,803	49.5%	**3,862**
Total	18,854		**6,484**	20,875		**7,074**
Percent Income-Qualified[2]			61%			61%
Total potential market			3,955			4,315
(times) Percent living alone		x	58%			58%
(equals) Age/income-qualified singles needing assistance		=	2,294			2,503
(plus) Proportion of demand from couples (12%)[3]		+	313			341
(equals) Total age/income-qualified market needing assistance		=	2,607			2,844
(times) Potential penetration rate[4]		x	40%			40%
(equals) Potential demand from PMA residents		=	1,043			1,138
(plus) Proportion from outside the PMA (25%)		+	348			379
(equals) Total potential assisted living demand		=	1,390			1,517
(minus) Existing market rate assisted living units[5]		-	477			574
(equals) Total excess market rate assisted living demand		**=**	**913**			**943**
(times) Percent that could be captured on a Site in Study Area		x	5%			5%
(equals) Excess market rate assisted living demand		**=**	**46**			**47**

[1] The percentage of seniors needing assistance with ADLs, based on the 1990 & 1991 panels of the Survey of Income and Program Participation (SIPP) files, conducted by the U.S. Census Bureau.

[2] Includes households with incomes of $40,000 or more (who could afford monthly rents of $3,000+ per month) plus 40% of the estimated owner households with incomes below $40,000 (who will spend down assets, including home-equity, in order to live in assisted living housing).

[3] The 2009 Overview of Assisted Living (a collaborative project of AAHSA, ASHA, ALFA, NCAL & NIC) found that 12% of assisted living residents are couples.

[4] We estimate that 60% of the qualified market needing assistance with ADLs could either remain in their homes or reside at less advanced senior housing with the assistance of a family member or home health care, or would need greater care provided in a skilled care facility.

[5] Existing and pending units at 93% occupancy, minus units estimated to be occupied by Elderly Waiver residents.

Source: Maxfield Research Inc.

Demand for Memory Care Senior Housing

Table 19 presents our demand calculations for memory care housing in the Primary Market Area in 2014 and 2020. Demand is calculated by starting with the estimated Market Area senior (ages 65+) population in 2014 and multiplying by the incidence rate of Alzheimer's/dementia among this population's age cohorts. This yields a potential market of about 5,648 seniors in the Primary Market Area in 2014.

According to data from the National Institute of Aging, about 25% of all individuals with memory care impairments are a market for memory care housing units. This figure considers that seniors in the early stages of dementia will be able to live independently with the care of a spouse or other family member, while those in the latter stages of dementia will require intensive medical care that would only be available in skilled care facilities. Applying this figure to the estimated population with memory impairments yields a potential market of about 1,412 seniors in the Primary Market Area in 2014.

Because of the staff-intensive nature of dementia care, typical monthly fees for this type of housing start at about $4,000. Although some of the seniors will have high monthly incomes, most will be seniors willing to spend down assets and/or receive financial assistance from family members to afford memory care housing. Based on our review of senior household incomes in the Market Area, homeownership rates, and home sale data, we estimate that 47% of all seniors in the Market Area have incomes and/or assets to sufficiently cover the costs for memory care housing. This figure takes into account married couple households where one spouse may have memory care needs and allows for a sufficient income for the other spouse to live independently. Multiplying the potential market (1,412 seniors) by 47% results in a total of about 664 income-qualified seniors in the Market Area in 2014. We estimate that 25% of the overall demand for memory care housing on the Site would come from outside the Market Area, for a total demand for 885 units in 2014.

Currently, there are 12 properties with 287 memory care units in the PMA. We adjust the number of competitive units based on location within the PMA, subtract 15% of the units (excluding Elderly Waivers), and allocate a 7% vacancy factor for a total excess demand potential for 704 memory care units in 2014. We then add the pending memory care units in the PMA. We then subtract the total (adjusted for location, Elderly Waivers, and a 7% vacancy factor) from the 2020 demand, resulting in excess demand potential for 817 units in 2020. We estimate that a site in the Study Area could capture 5% of the total memory care demand in the PMA. Applying this capture rate results in excess demand for 35 market rate memory care units in 2014, increasing to 41 units in 2020.

TABLE 19
MEMORY CARE DEMAND
PRIMARY MARKET AREA
2014 & 2020

		2014		2020
65 to 74 Population		19,632		24,144
(times) Dementia Incidence Rate[1]	x	2%	x	2%
(equals) Estimated Senior Pop. with Dementia	=	393	=	483
75 to 84 Population		11,581		13,072
(times) Dementia Incidence Rate[1]	x	19%	x	19%
(equals) Estimated Senior Pop. with Dementia	=	2,200	=	2,484
85+ Population		7,273		7,803
(times) Dementia Incidence Rate[1]	x	42%	x	42%
(equals) Estimated Senior Pop. with Dementia	=	3,055	=	3,277
(equals) Total Population with Dementia		**5,648**		**6,244**
(times) Percent Needing Specialized Memory Care Assistance	x	25%		25%
(equals) Total Need for Dementia Care	=	1,412	=	1,561
(times) Percent Income/Asset-Qualified[2]	x	47%	x	50%
(equals) Total Income-Qualified Market Base	=	664	=	780
(plus) Demand from Outside the Market Area (25%)	+	221	+	260
Total Demand for Memory Care Units		885		1,041
(minus) Existing and Pending Memory Care Units[3]	-	181	-	224
(equals) Excess Primary Market Area Demand Potential	**=**	**704**	**=**	**817**
(times) Estimated Percent Capturable on a Study Area Site	x	5%	x	5%
(equals) Memory Care Demand Capturable on Site	**=**	**35**	**=**	**41**

[1] Alzheimer's Association: Alzheimer's Disease Facts & Figures (2007)

[2] Income greater than $60,000 in 2014 and greater than $65,000 in 2020, plus some lower-income homeowners.

[3] Existing and pending units at 93% occupancy, minus units estimated to be occupied by Elderly Waiver residents.

Source: Maxfield Research Inc.

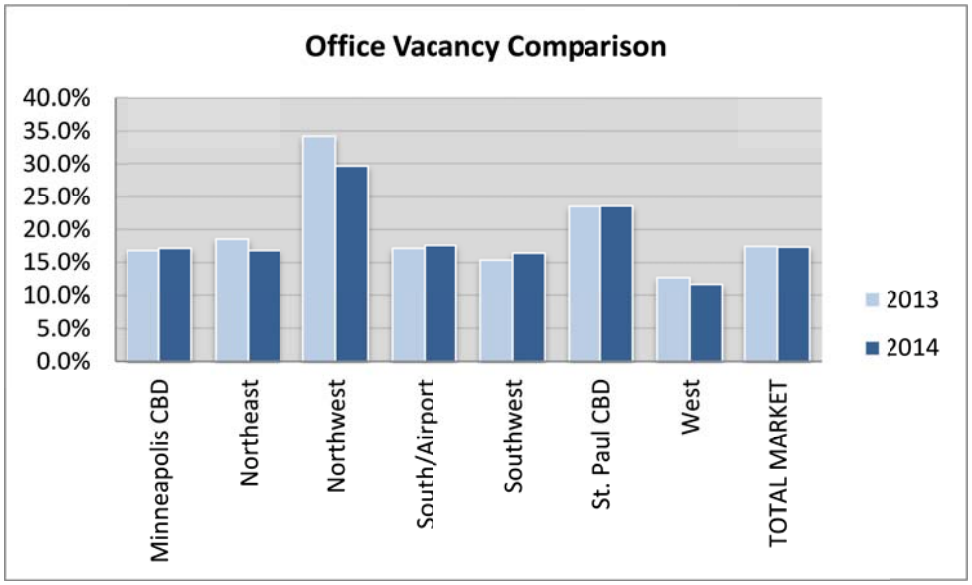
Commercial Market Analysis

This section presents and analyzes information relating to the condition of the retail and office markets and the potential for future commercial development in the Study Area. Information analyzed in this section includes consumer expenditures by Market Area residents, retail sales trends, employment and business growth trends, and a review of the existing supply of retail and office space. Based on an analysis of this information, calculations of the development potential for retail and office space in the Market Area during the remainder of the decade are presented. The potential for new commercial development in the Study Area will be greatly influenced by overall market conditions in the surrounding area.

Twin Cities Office Market Conditions

Maxfield Research analyzed office market trends for the Twin Cities Metro Area, including total rentable area, vacancy rates, rental rates and absorption. The data is provided by Cushman & Wakefield|NorthMarq. The data includes information for multi-tenant office buildings greater than 20,000 square feet in size. Market statistics for each submarket are identified in the table on the following page. The following points summarize key findings from the Cushman & Wakefield|NorthMarq mid-year 2014 *Compass* report.

- The market posted approximately -111,000 square feet of negative absorption during the first half of 2014, but over 160,000 square feet of positive absorption occurred over the past twelve months. Space absorption pushed the vacancy rate down -0.1 percentage point over the past year to 17.4% as of mid-year 2014.



- Across the Metro Area, demand has been strong for Class A space, while Class B and C properties have experienced minimal demand. Class A vacancy is at 13.8%, compared to 20.9% in Class B buildings and 18.8% in Class C properties. Class A vacancy is lowest in the West submarket (10.1%) and the Minneapolis CBD (11.8%).

- Four of the seven submarkets experienced modest positive absorption during the first half of 2014, led by the South/Airport submarket with 34,000 square feet of absorption. The Southwest submarket (which includes Edina) is 16.5% vacant after experiencing -31,000 square feet of negative absorption. However, Class A vacancy is much lower at 14.1%. Demand for Class A space generated nearly 38,000 square feet of absorption in the Southwest submarket during the second quarter of 2014. Vacancy rates are projected to decline modestly, as roughly 100,000 square feet of space is expected to be absorbed in the Southwest submarket during the second half of 2014.

TABLE 20
OFFICE MARKET STATISTICS
TWIN CITIES
July 2013 - July 2014

2014

Submarket	# of Bldgs	Total Rentable SF	Total Vacant SF	Vacancy Rate	1st Half 2014 Absorption	Last 12 Months Absorption	Net Rent
Minneapolis CBD	106	26,079,233	4,474,905	17.2%	(48,059)	1,130	$14.51
Northeast	118	7,590,626	1,279,916	16.9%	1,959	122,208	$11.83
Northwest	35	2,241,711	664,792	29.7%	7,205	24,665	$9.72
South/Airport	81	5,770,573	1,017,557	17.6%	34,085	11,508	$12.27
Southwest	**136**	**14,029,096**	**2,310,883**	**16.5%**	**(31,447)**	**(58,312)**	**$14.19**
St. Paul CBD	41	6,777,235	1,600,171	23.6%	(103,812)	(31,027)	$9.62
West	94	8,692,528	1,018,790	11.7%	28,745	90,010	$14.69
Total Market	**611**	**71,181,002**	**12,367,014**	**17.4%**	**(111,324)**	**160,182**	**$13.48**

2013

Submarket	# of Bldgs	Total Rentable SF	Total Vacant SF	Vacancy Rate	1st Half 2013 Absorption	Last 12 Months Absorption	Net Rent
Minneapolis CBD	106	26,221,034	4,417,366	16.8%	(104,272)	43,563	$14.07
Northeast	118	7,579,626	1,408,301	18.6%	19,703	180,593	$11.64
Northwest	36	2,364,711	809,579	34.2%	60,656	15,560	$9.58
South/Airport	81	5,770,573	991,473	17.2%	13,077	81,644	$12.25
Southwest	**138**	**14,110,908**	**2,174,415**	**15.4%**	**125,185**	**253,063**	**$13.77**
St. Paul CBD	44	6,890,172	1,623,277	23.6%	37,314	80,983	$9.29
West	95	8,730,528	1,108,800	12.7%	197,893	174,659	$14.29
Total Market	**618**	**71,667,552**	**12,533,211**	**17.5%**	**349,556**	**830,065**	**$13.13**

Sources: Cushman & Wakefield | NorthMarq; Maxfield Research, Inc.

- Rental rates are beginning to increase, particularly at Class A properties in high-demand locations. Marketwide, Class A rents increased 1.7% over the past year to $16.01 per square foot Net. Class B rents are also climbing, rising 2.7% to $11.18 per square foot.

- Equilibrium in the office market is generally considered to be vacancy of approximately 10% to 12%. While vacancy for the entire market remains well-above equilibrium, Class A vacancy in is at or approaching equilibrium in several submarkets suggesting that these submarkets may soon be able to support new office development. There has been minimal multi-tenant office development activity since the last of the projects launched pre-recession were delivered in 2008 and 2009, and no new speculative multi-tenant projects are underway or expected to get underway in the near term.

- The development of corporate-owned campuses will have an impact on vacancy and absorption in upcoming quarters, as several large corporate office occupiers will be vacating multitenant space and moving into corporate facilities. In Minneapolis, Wells Fargo, Xcel Energy, and CenterPoint Energy are all building new corporate facilities and will be leaving behind nearly 1.5 million square feet of multitenant space in 2015 and 2016. In the suburban submarkets, UnitedHealth is building additional office space at their campus in Eden Prairie and may vacate up to 600,000 square feet of space in southwest and western suburbs by 2017.

- Class A space is projected to continue performing well with strong occupancy and rent growth, but modest leasing activity is expected through the remainder of the year in Class B and C properties.

Twin Cities Medical Office Market Conditions

Maxfield Research analyzed medical office market trends for the Twin Cities Metro Area, including total rentable area, vacancy rates, and absorption. The data is provided by Cushman & Wakefield|NorthMarq. A medical office building is defined as a property where 50% or more of the tenants are medical-oriented. Medical properties typically have a higher parking ratio than traditional office properties and are generally marketed to medical tenants and have the infrastructure capable to accommodate medical uses.

Cushman & Wakefield|NorthMarq divides the local medical office market into two product types; On Campus and Off Campus. On Campus properties are connected by a tunnel or skyway to a hospital or major ambulatory surgery center or located in a distinct area adjacent to a hospital or ambulatory surgery center. Off Campus properties are not connected or immediately adjacent to a hospital or ambulatory surgery center. The following points summarize key findings from the Cushman & Wakefield|NorthMarq mid-year 2014 *Compass* report.

- Overall vacancy is 9.7%, down slightly from 9.8% at mid-year 2013, and many On Campus facilities are essentially full with eight hospital campuses reporting zero vacancy. Off Campus properties are 11.1% vacant, compared to 8.1% vacancy in On Campus facilities.

- Absorption in 2013 totaled 112,000 square feet, as 105,000 square feet of Off Campus space were absorbed during the year while On Campus facilities experienced 6,300 square feet of absorption. Through the first six months of 2014, 84,000 square feet of On Campus space were absorbed while Off Campus facilities experienced -25,000 square feet of negative absorption. The On Campus absorption was due primarily to the delivery of a new 115,000-square foot ambulatory care center on the Mercy Hospital Campus in Coon Rapids.

- The Southwest submarket, which includes Edina, contains 18 Off Campus properties, totaling nearly 894,000 square feet of medical office space. These projects are 5.6% vacant, the lowest vacancy rate among the four medical office submarkets, after experiencing roughly -1,800 square feet of negative absorption during the first half of 2014.

TABLE 21
MEDICAL OFFICE MARKET STATISTICS
TWIN CITIES
July 2013 - July 2014

2014	# of Bldgs	Total Rentable SF	Total Vacant SF	Vacancy Rate	2013 Absorption	1st Half 2014 Absorption	Net Rent
On Campus	38	2,980,023	242,750	8.1%	6,298	83,669	$18.94
Off Campus	71	3,142,219	349,601	11.1%	105,469	(25,493)	$17.23
Northeast	20	812,177	153,459	18.9%	67,398	(19,019)	$17.50
Northwest	14	740,054	83,483	11.3%	27,160	(1,518)	$14.57
Southeast	19	695,993	62,204	8.9%	2,119	(3,150)	$18.56
Southwest	**18**	**893,995**	**50,455**	**5.6%**	**8,792**	**(1,806)**	**$18.45**
Total Medical Office	**109**	**6,122,242**	**592,351**	**9.7%**	**111,767**	**58,176**	**$18.13**

2013	# of Bldgs	Total Rentable SF	Total Vacant SF	Vacancy Rate	2012 Absorption	1st Half 2013 Absorption	Net Rent
On Campus	37	2,865,023	228,005	8.0%	54,131	(10,288)	$18.76
Off Campus	69	3,169,920	366,182	11.6%	110,209	1,979	$17.31
Northeast	21	910,437	177,123	19.5%	41,611	7,015	$17.89
Northwest	11	659,532	57,903	8.8%	40,741	(3,157)	$14.33
Southeast	19	705,956	68,562	9.7%	14,064	3,274	$18.32
Southwest	**18**	**893,995**	**62,594**	**7.0%**	**13,793**	**(5,153)**	**$18.49**
Total Medical Office	**106**	**6,034,943**	**594,187**	**9.8%**	**164,340**	**(8,309)**	**$18.05**

Sources: Cushman & Wakefield | NorthMarq; Maxfield Research, Inc.

- Tight market conditions have generated some development activity as seven Off Campus projects totaling 251,000 square feet of medical office space are under construction in the market, the highest level of development since 2007. Much of the development activity is concentrated in the northwest metro area, with one project in Maple Grove and two in Plymouth. There are also two medical office projects under construction in Woodbury.

- Going forward, mergers and alliances within the healthcare industry will impact demand for medical space. In an effort to become more efficient, independent practices will likely continue merging or aligning with systems, reducing the number of independent providers in the market. The medical office market will be impacted as these new partnerships and organizations evaluate their real estate inventory to determine if redundancies exist and where service delivery can be expanded. Additionally, the pool of potential patients has grown after roughly 180,000 residents of Minnesota gained health insurance due to the Affordable Care Act. In an attempt to serve this larger group of patients, the major health systems are restructuring their service delivery model which has involved the creation of new urgent care, transitional care, and ambulatory care facilities in locations that are closer to where people live.

- Demand for medical office space will likely remain strong with much of the absorption projected in the second half of 2014 expected to come from the delivery of buildings currently under construction, many of which are preleased. Rental rates are being pushed upwards into the low- to mid-$20 per square foot range in new developments.

- The Off Campus market will continue to evolve to find the best way to serve patients under the new healthcare model with an emphasis on delivering care closer to the patient. This will likely result in the continued trend of moving ambulatory care clinics away from On Campus hospital settings and healthcare systems are expected to continue locating in suburban markets. This is expected to be a major trend as healthcare providers and practitioners seek out space in locations that offer easier access and convenience to their patients.

Business Growth by Type of Business

The following table presents the distribution of businesses that are typical users of office space by number of employees in the Wooddale/Valley View Study Area in the years 2000 and 2012, the most recent data available. The data is extracted from the Business Register, a database of all known employer companies which is maintained and updated by the U.S. Census Bureau and is accumulated based on Zip Code boundaries. For this analysis, we used the 55424 ZIP Code which comprises the Study Area and surrounding neighborhoods, primarily to the north of the intersection. Growth in these sectors is an important indicator of total demand for office space and the size of businesses provides an indication of the type and sizes of office spaces required.

In addition to businesses in these sectors, a small amount of office demand will be generated from other sectors, including government agencies. The following are key points.

- The office-using business categories include Information; Finance and Insurance; Real Estate; Professional, Scientific, and Technical Services; Management of Companies and Enterprises; Education; and Health Care and Social Assistance. The number of businesses in these categories in the 55424 ZIP Code expanded by 11.5% between 2000 and 2012, increasing from 157 businesses in 2000 to 175 businesses in 2012.

- In 2012, the area had a total of 175 businesses which typically occupy office space with 76 (43%) in the Professional, Scientific, and Technical Services industry. The Health Care and Social Assistance industry (includes child day care, dentists, chiropractors and other medical doctors) comprised 36 businesses (21%), the Real Estate sector had 33 businesses (19%), and there were 19 businesses in the Finance and Insurance sector (11%). , and five establishments in the Education sector (3%). The Education, Management of Companies and Enterprises, and the Information sectors represented a relatively small proportion of office-using businesses in the area.

TABLE 22
OFFICE-USING BUSINESSES BY INDUSTRY AND SIZE OF BUSINESS
WOODDALE/VALLEY VIEW STUDY AREA (55424 ZIP CODE)
2000 and 2012

	--------- Industry Description ----------								
# of Employees	Information	Finance & Insurance	Real Estate & Rental & Leasing	Professional Scientific & Tech. Services	Mgmt of Companies & Enterprises	Education	Health Care & Social Assistance	**Total No.**	**Total Pct.**
2000									
1 to 4	2	19	12	58	0	2	22	115	73.2
5 to 9	1	3	1	7	2	1	7	22	14.0
10 to 19	0	1	0	4	0	0	5	10	6.4
20 to 49	3	2	0	1	0	0	3	9	5.7
50 to 99	0	0	0	0	0	0	0	0	0.0
100 to 249	0	0	0	0	1	0	0	1	0.6
250 or more	0	0	0	0	0	0	0	0	0.0
Total	***6***	***25***	***13***	***70***	***3***	***3***	***37***	***157***	*100.0*
2012									
1 to 4	2	18	30	68	1	4	23	146	83.4
5 to 9	0	0	2	5	0	1	8	16	9.1
10 to 19	1	1	0	3	1	0	5	11	6.3
20 to 49	0	0	0	0	0	0	0	0	0.0
50 to 99	0	0	1	0	0	0	0	1	0.6
100 to 249	0	0	0	0	1	0	0	1	0.6
250 or more	0	0	0	0	0	0	0	0	0.0
Total	***3***	***19***	***33***	***76***	***3***	***5***	***36***	***175***	*100.0*

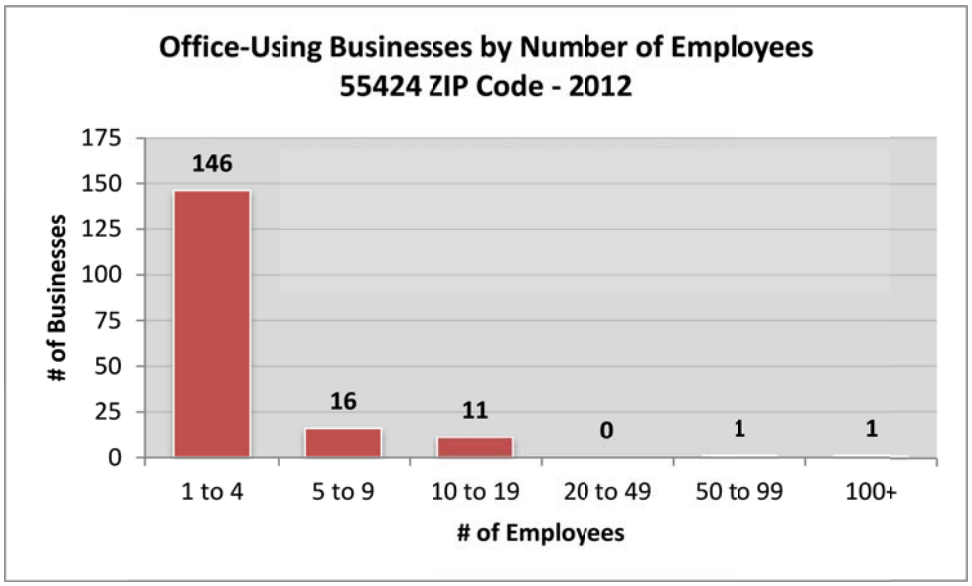
Sources: Bureau of the Census; County Business Patterns; Maxfield Research Inc.

- The Professional, Scientific, and Technical Services industry maintains the largest presence of office-using business establishments in the area and also experienced solid growth between 2000 and 2012, adding six businesses (+9%). This sector comprises establishments that specialize in performing professional, scientific, and technical activities for clients in a variety of industries as well as for households. Services performed include: legal representation; accounting and payroll; architectural, engineering, and design; computer; consulting; research; advertising; photographic; translation and interpretation; and, veterinary. Continued household growth will stimulate additional demand for services from businesses in this sector.

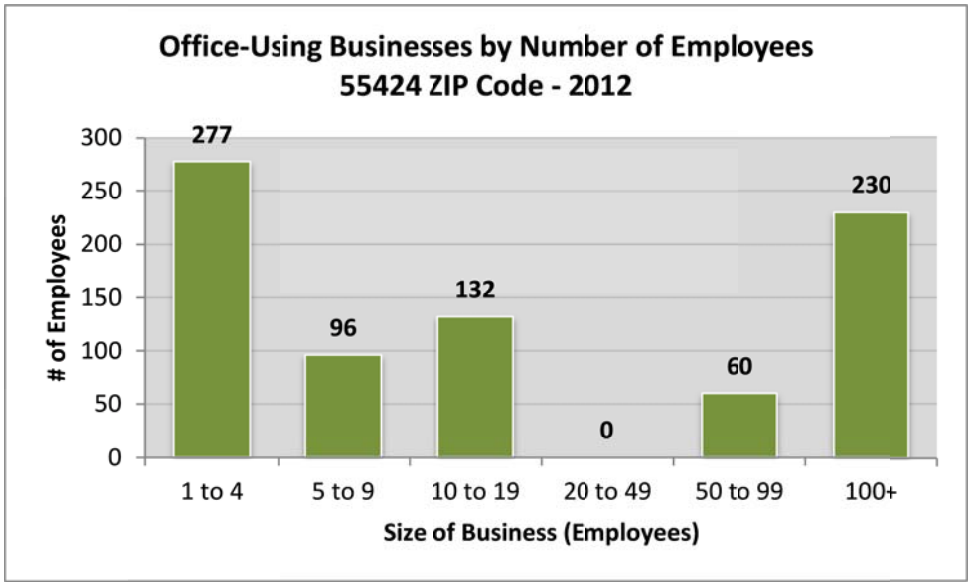
- Other increases occurred in the Real Estate sector which gained 20 businesses (+154%) and the Education sector (+two businesses for a 67% increase). Finance and Insurance, Information, and the Health Care and Social Assistance sectors each contracted between 2000 and 2012, while the number of business establishments in the Management of Companies and Enterprises sector held steady.

- Of the office-using businesses in the area, 83% had fewer than five employees, 9% had between five and nine workers, and 6% had between 10 and 19 workers. There were no establishments with 20 to 49 workers, and businesses with 50 or more employees represented a small proportion of the office-using establishments, with two (1%).

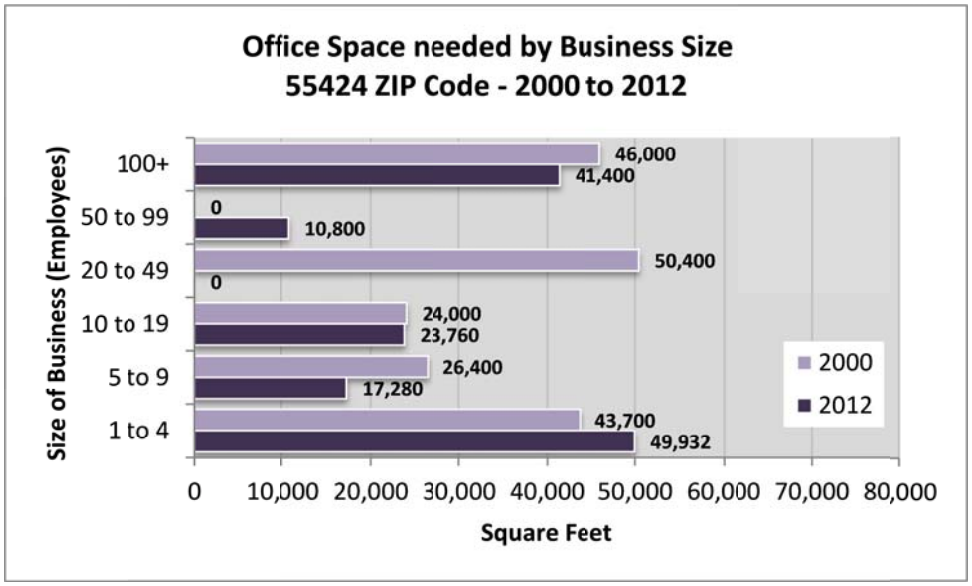
- The Health Care and Social Assistance industry had the highest number of larger businesses with five companies having ten or more workers (14% of the businesses in that sector). Within the Professional, Scientific and Technical Services sector, only three out of the 76 businesses had ten or more employees (4%), while 68 companies (89%) had fewer than five employees.



- Based on this information, it appears that the majority of office users in the area are likely to require smaller spaces. Assuming that office employees occupy an average of 180 square feet of office space, many companies in the area would need less than 1,000 square feet, and only 7% of the business establishments would need more than 1,800 square feet. It should be noted that some, if not most, of these small businesses are likely to be located in home offices.



- The following chart shows an estimate of the total amount of office space needed to accommodate the businesses listed in the table by size of business in 2012 compared to 2000.



- The figures assume that employees occupied an average of 200 square feet of office space (including common areas) in 2000 and 180 square feet in 2012. According to various sources (i.e. CoreNet Global and NAIOP), office space utilization has dropped steadily over the past decade as office users have attempted to gain efficiencies by increasing the amount of collaborative meeting space and shrinking the square footage allocated to individual work spaces.

- The chart shows that about 143,000 square feet is needed to accommodate all of the businesses in 2012. However, 146 companies (83% of the total) in the 55424 ZIP Code would require less than 900 square feet of space and many of these businesses with between one and four employees are likely operated from private homes, thereby reducing total office needs to about 93,000 square feet in the area.

- Approximately 16 (9%) businesses would need between 900 and 1,800 square feet of space and 11 (6%) would need 1,800 to 3,600 square feet. We estimate that a total of 41,000 square feet of office space was needed in the area to house businesses in these size ranges in 2012. Only one business establishment would require between 9,000 and 18,000 square feet of space in 2012, and one establishment would require over 18,000 square feet. In total, we estimate that roughly 52,000 square feet of space was needed to house business establishments with 50 or more employees in the 55424 ZIP Code.

- Between 2000 and 2012, growth occurred in the amount of space required to accommodate the smallest users in the area (less than five employees). We estimate that total demand for office space declined by -25% during that time period. These trends suggest that there has been limited development potential for new office space in the area surrounding the Wooddale/Valley View Study Area.

- Demand for commercial office space can also be generated from sectors other than the traditional office-using industries, including: Administrative and Support and Waste Management and Remediation Services (i.e. temporary employment agencies, security firms, cleaning companies); Arts, Entertainment, and Recreation; and, Other Services (i.e. grantmaking, advocacy, drycleaning and laundry services).

- In total, these non-traditional office users represent 15% of all businesses establishments in the area, while the traditional office-using sectors represent 51% of the businesses. In 2000, there were 54 establishments in these sectors (18% of the total). Roughly 69% of the non-traditional office users employ fewer than five workers, while 17% have between five and nine employees, 17% employ 10 to 19 workers, and 3% have 20 to 49 employees. Roughly 9% employee between 100 and 250 workers.

Growth of Jobs Using Office Space

The table on the following page presents total employment growth trends and projections in the City of Edina from 2000 to 2020, including the estimated percentage of total employment among industries that typically occupy office space. For this analysis, we include jobs in the Information, Financial Activities, and Professional and Business Services sectors, as well as half of the jobs in the Education and Health Services sector. The figures were compiled by Maxfield Research, based on data from Minnesota DEED.

- Between 2000 and 2010, Edina lost -5,649 jobs (-10.6%) while the estimated number of jobs requiring office space declined -0.9% (-246 jobs). However, nearly 1,700 jobs have been added in Edina since 2010 (+3.6%), 260 of which were in the office-using industry sectors.

TABLE 23
EMPLOYMENT GROWTH TRENDS AND PROJECTIONS - OFFICE SECTORS
CITY OF EDINA
2000 to 2020

Employment	Total Jobs		Office Jobs*		% Office Jobs
2000	53,124		26,011		49.0%
2010	47,475		25,765		54.3%
2013	49,174		26,025		52.9%
2020 Forecast	**51,400**		**29,452**		**57.3%**
Change	**No.**	**Pct.**	**No.**	**Pct.**	**Pct.**
2000 - 2010	-5,649	-10.6%	-246	-0.9%	5.3%
2010 - 2013	1,699	3.6%	260	1.0%	-1.3%
2013 - 2020	2,226	4.5%	3,427	13.2%	4.4%

*Office jobs include jobs primarily in the Information, Financial Activities, Professional and Business Services, and a portion of the Educational and Health Services sectors.

Sources: MN DEED; Maxfield Research, Inc.

- Total job growth outpaced office-occupying growth over the past three years as employers are replacing jobs that were lost during the second half of last decade. Many employers are likely being forced into hiring as many reduced their workforces significantly during the Great Recession and can no longer achieve significant productivity increases with the existing number of employees. Employment increases are likely coming from economic recovery and the need to increase labor force to accommodate further increases to demand and production. Industries experiencing the most significant growth since 2010 include Education and Health Services (+1,596 jobs for a 16% increase) and Other Services (+338 jobs for an 18% increase). The Financial Activities sector contracted by -929 jobs (-13%).

- According to long-term industry projections provided by DEED for the Twin Cities Metro Area, the number of jobs in office-using industries is expected to grow 18.4% between 2010 and 2020. Office jobs accounted for 40.4% of all Metro Area jobs in 2010 and are projected to increase to 42.7% of total jobs by 2020.

- The proportion of office jobs has increased in Edina over the past decade, accounting for 49% of all jobs in 2000 and 54% in 2010. Due to a faster pace of hiring in other sectors over the past three years, the ratio of office-using jobs to total jobs dipped slightly to 53% in 2013. We expect the proportion of office jobs in Edina to expand at a pace that is similar to the Twin Cities Metro Area, increasing to over 57% in Edina by 2020, resulting in the addition of 3,427 office-using jobs (+13.2% growth) between 2013 and 2020.

- According to a recent CoreNet Global Corporate Real Estate 2020 survey, the average amount of office space per employee has declined from over 200 square feet in 2010 to roughly 180 square feet per employee in 2012. With the addition of roughly 3,427 office jobs between 2013 and 2020 in Edina, it can be estimated that approximately 617,000 square feet of office space would be needed to accommodate these new employees. The actual amount of office space needed will be less however, because this figure includes people working from home offices and some professional businesses may prefer to locate in retail space.

Office Development Potential

This section focuses on factors that influence the demand for office space, primarily business and employment growth. The amount (in square feet) of additional office space supportable in the Edina is based on projected office employment growth and the amount of employment growth that would be capturable by suitable space located in the Study Area.

- In 2013, there were approximately 49,174 jobs in Edina, 52.9% of which were in typical office-using industries. This percentage is projected to increase modestly as the greatest job growth over the next several years, according to the Minnesota Department of Employment and Economic Development, will be among industries that require office space, such as Education and Health Services, Professional and Business Services, and Financial Activities. We project that by 2020 about 57.3% of all jobs in Edina will be in industries that typically require office space (+3,427 jobs in the office-using industries).

- Not all of the office-type jobs created will seek or want space in office buildings. As shown earlier in this section, 83% of the office-type businesses in the 55424 ZIP Code have fewer than five employees. The majority of these businesses are likely one-person or two-person businesses with many operating from peoples' homes. In addition to home offices, some businesses will prefer traditional retail space. Examples include an accounting firm, insurance agency, or a health care provider that may seek retail space with higher visibility.

- Based on business size data for the City of Edina, we estimate that 91% of the office-type jobs in the PMA in 2013 are in traditional office space, or about 23,683 jobs in Edina. Multiplying the estimated number of employees in office space by the industry standard of 180 square feet of office space per job, results in demand for roughly 4.3 million square feet of office space in the PMA in 2013. Based on our analysis, demand for office space in the PMA is expected to grow by roughly 561,000 square feet between 2013 and 2020.

- However, it appears that existing vacant office space in Edina will be able to accommodate much of this growth. Based on a review of active multi-tenant office listings in Edina, there is over 1.0 million square feet of office space listed as available for lease in the City. Additionally, because the Study Area is not located along a major highway and the surrounding properties are primarily residential, it is not likely to attract a large-scale office development.

- We anticipate that there will be growing demand from business establishments that offer services to local households, such as; health care providers, insurance agencies, accountants, and real estate agents. Many business establishments in these sectors require a relatively small amount of space and could be drawn to new space in the Study Area. Based on a capture rate range of 1% to 2%, we anticipate that the Study Area could support up to 11,000 square feet of new space for office tenants.

TABLE 24
PROJECTED DEMAND FOR OFFICE SPACE
WOODDALE/VALLEY VIEW STUDY AREA
2013 to 2020

		2013	2020
Office Demand			
Projected number of jobs in Edina		49,174	51,400
(times) % of jobs in industry types that typically require office space	x	52.9%	57.3%
(equals) Projected number of office-type jobs in Edina	=	26,025	29,452
(times) % of office-type jobs seeking/needing office space*	x	91%	91%
(equals) Projected # of employees in office space in Edina	=	23,683	26,801
(times) Square feet of office space per employee	x	180	180
(equals) Projected demand for office space in Edina (sq. ft.)	**=**	**4,262,895**	**4,824,238**
Growth in Edina office demand (2013 to 2020)		**561,343**	
(times) % of Market Area demand growth capturable in Study Area		1% - 2%	
(equals) Office space supportable on Site (sq. ft.)		**5,613 - 11,227**	

* Percent of office-type jobs seeking office space versus home offices or retail spaces.

Source: Maxfield Research Inc.

Types of Retail Goods and Customer Shopping Patterns

The following describes the various types of retail goods and the manner in which customers generally shop for these goods. Because of the significant diversification of retail outlets, some of these categories overlap in certain cases.

Shopping goods are those on which shoppers spend the most effort and for which they have the greatest desire to comparison shop. The trade area for shopping goods tends to be governed by the urge among shoppers to compare goods based on selection, service and price. Therefore, the size of the trade area for shopping goods is affected most by the overall availability of goods in alternate locations. Some examples of shopping goods include furniture, appliances, clothing and automobiles.

Convenience goods are those that consumers need immediately and frequently and are therefore purchased where it is most convenient for shoppers. Shoppers as a rule find it most convenient to buy such goods near home, near work or near a temporary residence when traveling. Examples of these types of goods include gasoline, fast food, liquor, groceries, pharmaceuticals, health and beauty aids, among others.

Specialty goods are those on which shoppers spend more effort to purchase. Such merchandise has no clear trade area because customers will go out of their way to find specialty items wherever they are sold. By definition, comparison shopping for specialty goods is much less significant than for shopping goods. Examples of these include gift shops, florists, pet stores, art gallery, antiques, home furnishings, textiles (needlework and fabrics), art supplies, books. The home furnishings segment has some overlap between shopping goods and specialty goods.

*Impulse good*s are those that shoppers do not actively or consciously seek. In stores, impulse goods are positioned near entrances or exits or in carefully considered relationships to shopping goods. Impulse goods are most likely to be located as a segment within other stores to capture additional impulse revenue from customer traffic. Examples of these types of goods are: candy and drinks at a dry cleaning establishment, candy or small novelty items near the cash register at a gift shop, accessories or jewelry at the counter in a clothing store. These may be located within existing stores, but would not be a separate establishment.

Retail properties can be classified into five major categories. These classifications are described below as defined by Cushman & Wakefield|NorthMarq.

Community Center: Community Centers are greater than 100,000 square feet and have at least two anchor tenants which may include a general merchandise store in addition to a supermarket or drug store. Limited small shop space is occupied by a mix of service-oriented tenants and soft-goods retailers. This classification also includes power

centers which are built around large format category killers such as electronic, home improvement and sporting goods stores.

Neighborhood Center: Neighborhood centers are usually anchored by a grocery store or a drug store. This type of center fulfills the day-to-day needs of the surrounding neighborhood, is located at major street intersections, and is roughly 30,000 to 100,000 square feet in size.

Regional Center: A regional center is a major shopping area generally with two or more anchor department stores and a variety of additional shops. These centers draw customers from a broad geographical area.

Specialty Center: Specialty centers are unanchored and have a theme or specialty tenants with a different character than the other center types. These centers are not located in CBD's and they may be a part of a larger, community center development.

Central Business District: Centers located in the Central Business District (CBD) of Minneapolis and St. Paul. This includes space located on the skyway or street fronts. To properly reflect the status of these submarkets, some of these centers may be smaller than 20,000 square feet due to the smaller size and scope of this market.

Outlet Mall: Outlet malls are located along major freeways within a 100-mile radius of the Twin Cities in the outer suburbs or Outstate Minnesota. Tenants are typically large retailers or manufacturers that use these locations to sell directly to consumers. Outlet malls have traditionally been designed to appeal to the value-conscious shopper who wants brand-name merchandise at off-retail prices.

Visibility and access are primary considerations for retailers seeking a location. The success of a particular retail location is dependent, in part, upon how easy it is for consumers to locate the business, distinguish the business from competitors, include the business in other activities, and stop at the business during their daily commute. Several factors are taken into consideration based on traffic counts and visibility when retailers select a site, including:

- Daily traffic volumes in the area;
- Proximity to public transportation;
- Accessibility for potential customers as well as delivery vehicles;
- Visibility of the store and business signage from surrounding road network; and,
- The sites proximity to other traffic generators.

Based on data sourced from the Minnesota Department of Transportation (Mn/DOT), it appears that Valley View Road experiences an AADT (Annual Average Daily Traffic) of 5,300 vehicle trips per, while the AADT along Wooddale Avenue is approximately 3,000. Due to the Study Area's accessibility and visibility, it appears that the most likely retail uses to be drawn to the area will be neighborhood- and convenience-oriented establishments that supply goods and services to area households.

Neighborhood centers generally draw customers from a distance of roughly one and one-half miles, while community centers draw from a larger area (i.e. three to five miles). Generally, a neighborhood center will be situated with direct access to a collector street and community centers typically have access to major thoroughfares and arterial roadways. Both Valley View Road and Wooddale Avenue are classified as collector roadways, making the Study Area more suitable as a neighborhood center location as opposed to a community center or a larger regional shopping center.

Twin Cities Retail Market Conditions

Maxfield Research analyzed retail market trends for the Twin Cities Metro Area, including total rentable area, vacancy rates, and absorption. The data is provided by Cushman & Wakefield|NorthMarq. This information is useful in assessing the potential to develop retail uses on the subject property as the overall health of the local retail market will influence the development potential of the Site. The data includes information for multi-tenant retail buildings greater than 20,000 square feet in size. The table on the following page shows the growth of retail space and changes in vacancy in the various retail center types covered by Cushman & Wakefield|NorthMarq from mid-year 2013 to mid-year 2014. The points following the table summarize key points from the mid-year 2014 *Compass* report.

- After a strong year in 2013, the Twin Cities retail market was flat through the first half of 2014, with vacancy holding steady at 7.2% while average rental rates declined modestly from $27.60 in the second half of 2013 to $27.36. Roughly -123,000 square feet of negative absorption occurred during the first half of the year although many of these vacated spaces already have new tenants signed with openings planned for later in 2014 or early 2015.

- Retail demand was highest in neighborhood centers, which experienced nearly 119,000 square feet of absorption during the first six months of the year. In 2013, nearly 281,000 square feet of neighborhood center space were absorbed. Over the past 12 months, roughly 347,000 square feet of absorption occurred, generating a -2.2 percentage point drop in neighborhood center vacancy to 9.5%.

- Much of the neighborhood center leasing activity is occurring in small-shop space, predominantly driven by fast-casual food concepts and hair-care service providers.

- There are several new pizza concepts that have recently signed leases or are actively seeking space, including PizzaRev, Pieology, Pizza Studio, and Punch Pizza.
- Several franchise salons and family-economy chain salons are also active in the market, including Salon Concepts, Sola Salons, and Phoenix Salon Suites. These concepts typically seek space in the 4,000- to 6,500-square foot range.

TABLE 25
RETAIL MARKET STATISTICS
TWIN CITIES
July 2013 - July 2014

2014

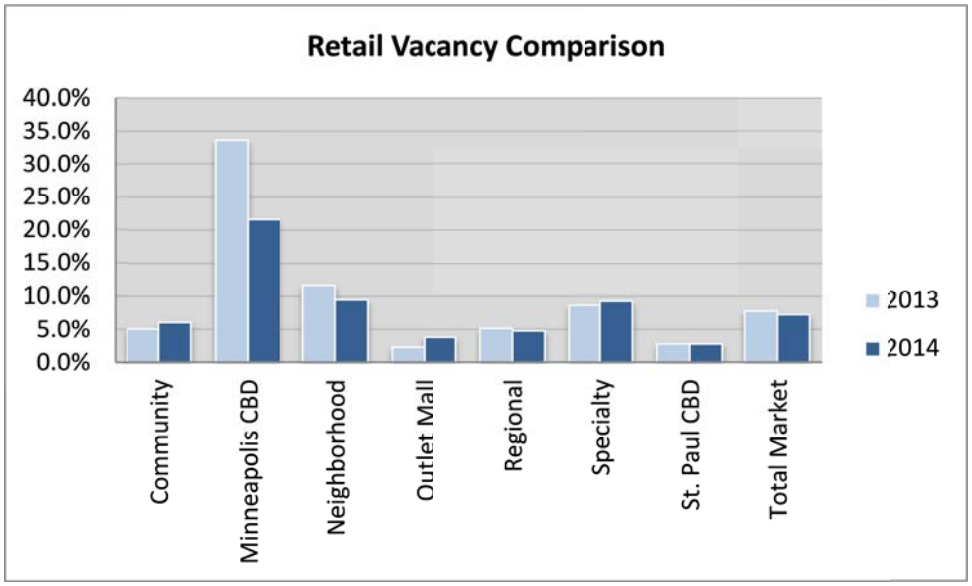
	# of Bldgs	Total Rentable SF	Total Vacant SF	Vacancy Rate	2013 Absorption	1st Half 2014 Absorption	Net Rent
Community	122	31,719,465	1,911,884	6.0%	818,561	-146,608	$18.75
Minneapolis CBD	16	1,356,675	293,434	21.6%	-107,553	41,427	$23.68
Neighborhood	306	19,693,160	1,867,002	9.5%	280,799	118,634	$15.71
Outlet Mall	3	788,440	30,000	3.8%	0	-12,000	$15.19
Regional	8	10,618,300	508,553	4.8%	-75,619	-170,594	$62.68
Specialty	17	2,063,969	191,559	9.3%	-16,294	46,431	$33.90
St. Paul CBD	9	368,737	10,292	2.8%	0	0	$16.37
Total Market	**481**	**66,608,746**	**4,812,724**	**7.2%**	**899,894**	**-122,710**	**$27.36**

2013

Submarket	# of Bldgs	Total Rentable SF	Total Vacant SF	Vacancy Rate	2012 Absorption	1st Half 2013 Absorption	Net Rent
Community	122	31,599,955	1,600,630	5.1%	717,542	640,360	$19.14
Minneapolis CBD	17	1,611,979	541,892	33.6%	-79,722	-105,481	$27.22
Neighborhood	306	19,761,960	2,314,790	11.7%	95,705	52,534	$15.67
Outlet Mall	3	788,440	18,000	2.3%	22,000	0	$15.19
Regional	8	10,779,064	558,831	5.2%	-127,712	-112,831	$63.06
Specialty	17	2,063,969	178,118	8.6%	61,108	-13,764	$33.23
St. Paul CBD	9	368,737	10,292	2.8%	2,359	0	$16.27
Total Market	**482**	**66,974,104**	**5,222,553**	**7.8%**	**691,280**	**460,818**	**$27.23**

Sources: Cushman & Wakefield | NorthMarq; Maxfield Research, Inc.

- Community centers experienced -147,000 square feet of negative absorption during the first half of 2014, after nearly 819,000 square feet were absorbed in 2013. Vacancy increased from 5.4% at year-end 2013 to 6.0% in mid-2014. The closing of nine Rainbow Foods grocery stores around the Metro Area is having a significant impact on absorption and vacancy in community center space. While these vacancies will present redevelopment opportunities for property owners, they will generate a significant vacancy increase during the second half of 2014.



- The Twin Cities retail market is currently experiencing some instability as Rainbow Foods exits the market, but retailers such as HyVee, Hobby Lobby, Planet Fitness, and Total Wine are expanding. Roughly 300,000 square feet of positive absorption is projected to occur in the second half of 2014, while vacancy rates will hover around 7%.

- Space availability is tightening in some of top retail trade areas (i.e. Edina, Bloomington, Maple Grove, Eden Prairie, Woodbury) and rents are climbing upwards. New development projects are quoting rents in the $35 to $40 per square foot range on small-shop space in many new 12,000- to 15,000-square foot centers that have been delivered recently.

Consumer Expenditure Patterns

Table 26 on the following pages shows estimated consumer expenditures and average expenditures per households for retail goods and services in the Retail Trade Area compared to the Twin Cities Metro Area in 2013, according to data obtained from ESRI based on Consumer Expenditure Surveys from the Bureau of Labor Statistics.

The table shows the average expenditures per household in the PMA and the amount spent in the Metro by product or service. In addition, a Spending Potential Index (SPI) is illustrated for comparison purposes. The SPI is based on households and represents the annual expenditures for a product or service relative to the national average which is given a benchmark index of 100. An SPI of 115 indicates that the average annual expenditure by local consumers is 15% above the national average. In addition, the Metro Area is indexed in the table. The average expenditure reflects the average amount spent per household, while the total expenditure reflects the aggregate amount spent by all households.

Consumer spending is influenced by market conditions and trends. In times of economic troubles, market conditions drive spending patterns toward convenience and necessities, whereas in times of a booming economy consumer trends feature opportunity and luxury items. Sales of luxury items and other large purchases are generally the first to falter in economic downturns. Two-thirds of the national economy is driven by consumer spending. During the most recent recession, households decreased spending, increased savings, and reduced credit card debt as many households have been faced with job losses. In essence, when the housing market began its decline in late 2006 into 2007, consumer spending and consumer confidence followed.

During the recession, consumers curtailed their spending habits as credit and home equity lines diminished as available sources of cash. As the nation exited the recession, consumers have gained confidence and spending has gradually recovered. The Conference Board's Consumer Confidence Index rose to its highest level since early 2008 during the summer of 2013. An increase in consumer confidence suggests economic growth with higher consumption.

The following are key points from the household expenditures table.

- Overall, residents of the Retail Trade Area are estimated to have spent approximately $234 million on retail goods and services in 2013, excluding housing, finance/insurance, and travel expenditures, as well as vehicle purchases.

- Average annual expenditures (excluding the categories mentioned above) are estimated to be $52,181 per household in the Retail Trade Area. This compares to an average of $27,593 per household throughout the Metro Area in 2013.

- As reflected in the SPI, expenditures by Market Area households are substantially higher than the national average in every product and service category except Apparel and Services. Average PMA expenditures are higher than the Metro Area in all categories.

- Average annual expenditures per household are estimated to be approximately $135,127 in the Retail Trade Area compared to $66,485 in the Metro Area, a substantial difference. Housing expenses account for approximately 30% of total consumer expenditures in the Retail Trade Area with residents spending about double per household than the Metro Area average.

- The roughly 4,400 households in the Retail Trade Area spent a total of $601 million on expenditures in 2013. With the number of households projected to grow to nearly 4,500 by 2020, they would generate an additional $1.7 million in expenditures annually, not factoring in inflation.

TABLE 26
ESTIMATED HOUSEHOLD EXPENDITURES BY SELECTED PRODUCT TYPE
RETAIL TRADE AREA & TWIN CITIES METRO AREA
2013

	Retail Trade Area Annual Expenditures		Metro Expenditures	Spending Potential Index to USA	
Category	Total ($000's)	Average Per HH	Average Per HH	PMA	Metro
Goods & Services				Index	Index
Apparel & Services	$15,543	$3,533	$1,865	157	82
Entertainment and Recreation	$34,900	$7,932	$4,040	246	124
Nonprescription Drugs	$1,229	$279	$142	222	114
Prescription Drugs	$4,693	$1,067	$549	220	113
Eye Glasses & Contact Lenses	$922	$210	$102	239	118
Personal Care Products	$4,399	$1,000	$538	219	121
Child Care	$4,661	$1,059	$566	243	128
School Books & Supplies	$1,701	$387	$229	220	122
Smoking Products	$3,193	$726	$536	160	110
Computer Hardware	$2,216	$504	$252	239	124
Computer Software	$207	$47	$25	238	126
Pets	$6,378	$1,449	$743	261	140
Food				Index	Index
Food at Home	$47,907	$10,888	$5,964	214	118
Food Away from Home	$32,287	$7,338	$3,903	229	122
Alcoholic Beverages	$5,745	$1,306	$662	241	124
Misc. Beverages at Home	$4,395	$999	$558	205	118
Home				Index	Index
Home Mortgage Payment/Rent	$110,886	$25,201	$11,877	276	125
Maintenance & Remodeling Services	$21,154	$4,808	$1,947	292	120
Maintenance & Remodeling Materials	$3,085	$701	$322	240	111
Utilities	$46,910	$10,661	$5,969	216	118
Household Furnishings, Equipment, & Operations				Index	Index
Household Textiles	$999	$227	$129	236	122
Furniture	$5,239	$1,191	$594	237	123
Floor Coverings	$321	$73	$32	304	125
Major Appliances	$2,776	$631	$324	241	117
Small Appliances	$438	$100	$53	223	118
Housewares	$593	$135	$79	192	106
Luggage	$113	$26	$11	287	129
Telephone & Accessories	$478	$109	$60	222	111
Lawn & Garden	$5,020	$1,141	$488	270	115
Moving/Storage/Freight Express	$745	$169	$83	235	126
Housekeeping Supplies	$6,812	$1,548	$840	220	118
Financial & Insurance				Index	Index
Investments	$40,772	$9,266	$2,636	345	127
Vehicle Loans	$38,748	$8,806	$4,646	213	121
Owners & Renters Insurance	$5,320	$1,209	$584	246	119
Vehicle Insurance	$11,588	$2,634	$1,438	223	121
Life/Other Insurance	$5,236	$1,190	$511	264	117
Health Insurance	$26,295	$5,976	$2,929	232	118

CONTINUED

TABLE 26 CONTINUED
ESTIMATED HOUSEHOLD EXPENDITURES BY SELECTED PRODUCT TYPE
RETAIL TRADE AREA & TWIN CITIES METRO AREA
2013

	Retail Trade Area Annual Expenditures		Metro Expenditures	Spending Potential Index to USA	
Category	**Total ($000's)**	**Average Per HH**	**Average Per HH**	**PMA**	**Metro**
Transportation				**Index**	**Index**
Cars and Trucks (Net Outlay)	$37,664	$8,560	$4,338	217	120
Gasoline and Motor Oil	$30,951	$7,034	$3,646	206	118
Vehicle Maintenance/Repair	$11,111	$2,525	$1,325	232	121
Travel				**Index**	**Index**
Airline Fares	$5,875	$1,335	$588	287	128
Lodging	$5,626	$1,279	$525	290	123
Vehicle Rental	$438	$100	$43	303	127
Food & Drink on Trips	$5,368	$1,220	$541	269	123
Average Annual Household Expenditures Summary					
Goods & Services	$80,043	$16,742	$8,843		
Food	$90,334	$20,531	$11,087		
Home	$182,035	$41,372	$20,116		
Household	$23,535	$5,349	$2,693		
Financial and Insurance	$127,959	$29,082	$12,743		
Transportation	$79,725	$18,119	$9,308		
Travel	$17,306	$3,933	$1,696		
Total	***$600,938***	***$135,127***	***$66,485***		

Note: The Spending Potential Index is based on households and represents the amount spent for a product or service relative to the national average of 100.

Sources: ESRI; Maxfield Research Inc.

Retail Demand Potential and Leakage

The table on the following page presents retail sales data for the Retail Trade Area. The sales information is from ESRI based on household counts. This information lists retail demand (potential sales), retail supply to consumers (retail sales) and provides a picture of the gap between the area's retail supply and demand.

A positive value represents "leakage" of retail opportunity to stores outside of the Market Area. A negative value represents a "surplus," where more customers are coming into the area for retail goods and services than there are households in the area. The following are key points of the retail demand potential.

TABLE 27
RETAIL DEMAND POTENTIAL AND LEAKAGE
RETAIL TRADE AREA
2013

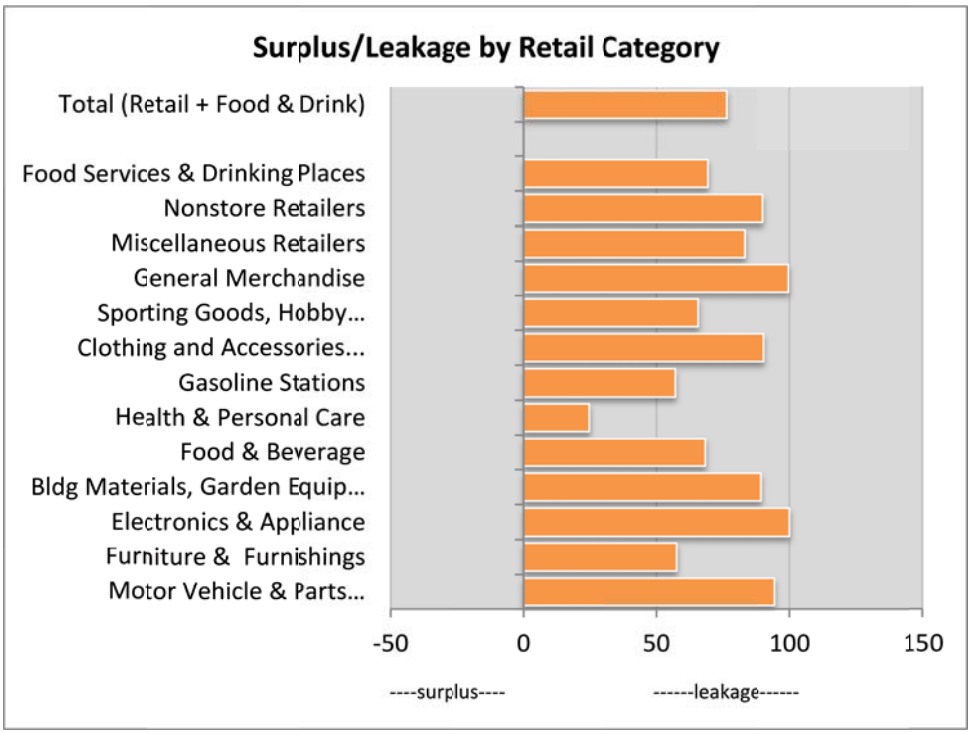
Industry Group (NAICS Code)	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap (Demand - Supply)	Surplus/Leakage Factor	Number of Businesses
SUMMARY					
Total Retail Trade and Food & Drink (NAICS 44-45, 722)	$296,969,143	$40,427,828	$256,541,315	76.0	60
Total Retail Trade (NAICS 44-45)	$265,104,325	$34,573,979	$230,530,346	76.9	50
Total Food & Drink (NAICS 722)	$31,864,818	$5,853,849	$26,010,969	69.0	10
EXPENDITURE TYPE					
Motor Vehicle & Parts Dealers	**$53,318,384**	**$1,543,178**	**$51,775,206**	**94.4**	**2**
Automobile Dealers	$45,715,019	$1,457,043	$44,257,976	93.8	1
Other Motor Vehicle Dealers	$3,893,384	$0	$3,893,384	100.0	0
Auto Parts, Accessories & Tire Stores	$3,709,981	$86,135	$3,623,846	95.5	1
Furniture & Home Furnishings Stores	**$6,252,187**	**$1,687,729**	**$4,564,458**	**57.5**	**4**
Furniture Stores	$3,512,211	$1,336,380	$2,175,831	44.9	2
Home Furnishings Stores	$2,739,976	$351,349	$2,388,627	77.3	2
Electronics & Appliance Stores	**$7,075,372**	**$0**	**$7,075,372**	**100.0**	**0**
Bldg Materials, Garden Equip. & Supply Stores	**$11,962,005**	**$669,503**	**$11,292,502**	**89.4**	**5**
Bldg Material & Supplies Dealers	$10,028,310	$669,503	$9,358,807	87.5	5
Lawn & Garden Equip & Supply Stores	$1,933,695	$0	$1,933,695	100.0	0
Food & Beverage Stores	**$39,574,057**	**$7,511,835**	**$32,062,222**	**68.1**	**9**
Grocery Stores	$33,595,611	$2,964,553	$30,631,058	83.8	4
Specialty Food Stores	$1,061,153	$328,617	$732,536	52.7	2
Beer, Wine & Liquor Stores	$4,917,293	$4,218,665	$698,628	7.6	3
Health & Personal Care Stores	**$19,272,348**	**$11,686,433**	**$7,585,915**	**24.5**	**7**
Gasoline Stations	**$26,550,662**	**$7,281,063**	**$19,269,599**	**57.0**	**3**
Clothing & Clothing Accessories Stores	**$14,606,786**	**$746,260**	**$13,860,526**	**90.3**	**5**
Clothing Stores	$11,353,992	$578,084	$10,775,908	90.3	4
Shoe Stores	$2,459,652	$168,176	$2,291,476	87.2	1
Jewelry, Luggage & Leather Goods Stores	$793,142	$0	$793,142	100.0	0
Sporting Goods, Hobby, Book & Music Stores	**$6,688,431**	**$1,395,727**	**$5,292,704**	**65.5**	**3**
Sporting Goods/Hobby/Musical Instr Stores	$5,238,234	$1,395,727	$3,842,507	57.9	3
Book, Periodical & Music Stores	$1,450,197	$0	$1,450,197	100.0	0
General Merchandise Stores	**$47,697,171**	**$84,597**	**$47,612,574**	**99.6**	**1**
Department Stores Excluding Leased Depts.	$20,336,332	$0	$20,336,332	100.0	0
Other General Merchandise Stores	$27,360,839	$84,597	$27,276,242	99.4	1
Miscellaneous Store Retailers	**$6,521,404**	**$614,504**	**$5,906,900**	**82.8**	**7**
Florists	$367,656	$81,537	$286,119	63.7	1
Office Supplies, Stationery & Gift Stores	$1,413,640	$92,547	$1,321,093	87.7	3
Used Merchandise Stores	$1,113,395	$92,582	$1,020,813	84.6	1
Other Miscellaneous Store Retailers	$3,626,713	$347,838	$3,278,875	82.5	2
Food Services & Drinking Places	**$31,864,818**	**$5,853,849**	**$26,010,969**	**69.0**	**10**
Full-Service Restaurants	$13,238,676	$3,649,785	$9,588,891	56.8	5
Limited-Service Eating Places	$16,193,883	$1,990,241	$14,203,642	78.1	3
Special Food Services	$1,081,351	$0	$1,081,351	100.0	0
Drinking Places - Alcoholic Beverages	$1,350,908	$213,823	$1,137,085	72.7	2

Note: All figures quoted in 2010 dollars. Supply (retail sales) estimates sales to consumers by establishments, sales to businesses are excluded. Demand (retail potential) estimates the expected amout spent by consumers at a retail establishment. Leakage/Surplus factor measures the relationship between supply and demand at ranges from +100 (total leakage) to -100 (total surplus). A positive value represents "leakage" of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area.

Sources: ESRI; Maxfield Research Inc.

- As illustrated in the following graph, the Retail Trade Area had significant leakage of retail sales in 2013, as the Trade Area experienced leakage in all the major retail categories. It appears that Trade Area residents are purchasing retail goods and services at establishments located outside the area, generating "leakage" of retail opportunity outside the trade area, indicating that a wide variety of retailers considering the Market Area could potentially capture sales that are currently being transacted outside of the trade area.

- However, it is not likely that Retail Trade Area residents are traveling far to purchase goods and services, as there are major retail concentrations located in close proximity to the Trade Area (i.e. the Southdale/France Avenue corridor, the 50th and France node in Minneapolis, and the I-494 corridor through Bloomington and Eden Prairie).



- Significant leakage is occurring in several categories that would likely be located in a neighborhood- or convenience-oriented retail setting, including: full-service and limited-service restaurants; gasoline stations; and, health and personal care stores.

Retail Development Potential

Demand for additional retail space, measured in gross leasable space in square feet, is calculated in the following table which combines demand information with supply to calculate the amount of retail space supportable in the Retail Trade Area. Sources of data used in the calculations include the Metropolitan Council and Maxfield Research Inc. (household growth trends), and ESRI (consumer expenditure).

The demand calculation begins with household growth projections combined with an estimate of the total expenditures for retail goods and services by Trade Area residents, excluding expenditures for automobiles, homes, finance and insurance, education, and travel. We anticipate that the primary source of demand for new retail space in the Study Area will be generated by household growth in the Retail Trade Area. The following points summarize the retail demand methodology.

- The household base in the Retail Trade Area is expected to grow by roughly 75 households between 2014 and 2020. Because of growth in the household base and accounting for inflation and projected increases in household income, Retail Trade Area residents are expected to increase their overall retail expenditures from an estimated $242 million in 2014 to nearly $311 million in 2020. Projected increases in households and annual expenditures will result in growth in retail expenditures by Trade Area residents of roughly $69 million between 2014 and 2020.

- As of 2013, total leakage of retail expenditures (including food and drink) from the Trade Area was estimated to be at 76%, indicating a substantial loss of potential retail sales. The Study Area could potentially attract stores in a variety of neighborhood- and convenience-oriented retail categories where there is significant leakage, such as full-service and limited-service restaurants; gasoline stations; and, health and personal care stores. Deducting leakage from total trade area expenditures results in purchasing power that will be retained in the Trade Area.

- Accounting for inflation along with the decline in consumer spending activity that resulted from the economic recession, we anticipate that the average retail sales per square foot will increase from an estimated $274 in 2014 to $304 in 2020. The retail sales per square foot reflects an average across neighborhood shopping centers in the Midwest and is based on information published in the "Dollars & Cents of Shopping Centers" prepared by the International Council of Shopping Centers and the Urban Land Institute.

- Dividing purchasing power by average retail sales per square foot equates to total demand for about 212,000 square feet of retail space in the Retail Trade Area in 2014, increasing to about 246,000 square feet in 2020, for a net gain of roughly 34,000 square feet from 2014 to 2020.

- We estimate that the Study Area could capture roughly 25% to 30% of the total growth in retail demand in the Retail Trade Area, resulting in demand from Trade Area households for approximately 11,000 to 13,000 square feet of retail space between 2014 and 2020. This estimate takes into consideration the Study Area's location within the Trade Area as well as the distribution of other retail establishments within the Trade Area.

TABLE 28
DEMAND FOR RETAIL SPACE
RETAIL TRADE AREA
2014 to 2020

		2014	2020
Retail Demand from Retail Trade Area			
Trade Area Households		4,400	4,475
(times) Annual Household Expenditures[1]	x	$52,181	$69,496
(equals) Total Trade Area Expenditures	=	$229,596,400	$310,993,138
(plus) Approx. % Leakage Outside the Trade Area[2]	+	76%	76%
(equals) Leakage Outside of Trade Area	=	$174,493,264	$236,354,785
(equals) Total Purchasing Power		$55,103,136	$74,638,353
(divided by) Average sales per Sq. Ft.	/	$274	$304
(equals) Total Retail Space Demand (Sq. Ft.)	**=**	**201,106**	**245,665**
Growth in retail demand 2014 to 2020		**44,559**	
(times) % of Demand Growth Capturable in Study Area	x	25% - 30%	
(equals) Retail space supportable in Study Area (sq. ft.)	**=**	**11,140 - 13,368**	

[1] Excluding expenditures for home buying, finance & insurance, travel, vehicle

[2] Leakage is the estimated amount of retail dollars spent outside the Study Area.

Note: The leakage factor is derived from subtracting the estimated retail sales in the Study Area from the total retail expenditures by Study Area residents.

Sources: ESRI; Maxfield Research, Inc.

Summary of Demand

The previous sections focused on the "demand" and "supply" factors for various real estate sectors, including general occupancy multifamily residential, senior housing, and commercial (office and retail). For each real estate sector, we calculated the Market Area demand and estimated the proportion of that demand capturable in the Study Area.

This section summarizes demand calculated for specific housing products, as well as commercial property types in the Study Area. Table 29 depicts the level of demand in the relevant market area for each product type as well as the amount capturable in the Wooddale/Valley View Study Area.

TABLE 29
DEMAND SUMMARY
WOODDALE/VALLEY VIEW MARKET AREA
2020

	Total Excess Demand in the Market Area	Capture Rate	Demand Capturable in Study Area
General Occupancy Multifamily			
Market Rate Rental	2,389 units	5%	119 units
For-Sale Multifamily	960 units	10%	96 units
Market Rate Senior Housing			
Active Adult Few Services	2,248 units	5%	112 units
Congregate	100 units	5%	5 units
Assisted Living	943 units	5%	47 units
Memory Care	817 units	5%	41 units
Commercial Space			
Office	561,000 square feet	2%	11,000 square feet
Retail	45,000 square feet	30%	13,000 square feet

Source: Maxfield Research Inc.

As defined previously, the Market Area for housing products is referred to as the Primary Market Area throughout the report. The Primary Market Area for housing products can be described as an aggregation of Census Tracts comprising the Cities of Edina, St. Louis Park, and Hopkins, the southwestern portion of Minneapolis, and the areas of Bloomington and Richfield situated west of I-35W.

The overall market area for office space is considered to be the City of Edina, while the trade area for retail goods and services can loosely be defined as the portion of Edina west of France Avenue, east of Highway 100, north of Highway 62, and south of 50th Street. We also include an area west of Highway 100 and east of Tracy Avenue and between Vernon Avenue and Highway 62 in the Retail Trade Area, as households in that portion of Edina have relatively convenient access to the Study Area via the Benton Avenue Bridge over Highway 100.

The following points briefly summarize our findings.

- In general, we find that the Study Area is most suitable for multifamily residential uses. We find particularly strong demand for active adult senior housing and market rate general occupancy rental housing.

- However, there are several rental housing projects in Edina and the Primary Market Area currently being developed at locations that we consider to be better-suited for rental housing than the Study Area. As such, we do not recommend a rental housing development in the near-term, but a smaller-scale project capitalizing on the neighborhood feel of the Study Area could be feasible by 2020.

- We find that pent-up demand exists for active adult senior housing in the Primary Market Area. While there is one active adult project under construction in Bloomington, it appears that the market could support additional active adult units, and we believe that the Study Area would serve as a viable location for active adult senior housing.

- General occupancy for-sale multifamily market conditions in Edina seem to be fairly robust, with increasing sales and rising prices. We find that demand exists for new for-sale multifamily units in the area, and a new for-sale multifamily development located in the Study Area would likely be well-received in the market.

- We find fairly limited demand for new office and retail space in the Study Area, but a small, neighborhood-oriented commercial development could be attractive to a variety of tenants. Business establishments that offer services to local households, such as; health care providers, insurance agencies, accountants, and real estate agents could be drawn to new space in the Study Area. Additionally, there is significant leakage of retail sales occurring in several neighborhood- or convenience-oriented retail categories, including: full-service and limited-service restaurants; gasoline stations; and, health and personal care stores. These types of uses may also be drawn to new commercial space in the Study Area.