Initial Market Assessment for Retail Development in Big Lake, Minnesota

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- Connexus Energy
- Xcel Energy
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- Big Lake Economic Development Authority

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April 9, 2018

MEMORANDUM

TO: Ms. Hanna Klimmek, EDFP
City of Big Lake

FROM: Mr. Joe Hollman
Maxfield Research and Consulting, LLC

RE: Initial Market Assessment for Retail Development in Big Lake, Minnesota

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Introduction/Purpose and Scope of Research

This memorandum provides an initial assessment of the market support for additional commercial retail development in the City of Big Lake, Minnesota, particularly on a Site located in the northeast corner of the intersection between Highway 10 and Lake Street North. The scope of this study includes a definition of the market area for retail space in Big Lake and an overview of demographic and economic trends impacting the Market Area. The study concludes with demand calculations for retail space to 2023, along with preliminary recommendations of the type(s) of commercial retail business establishments needed in the City.

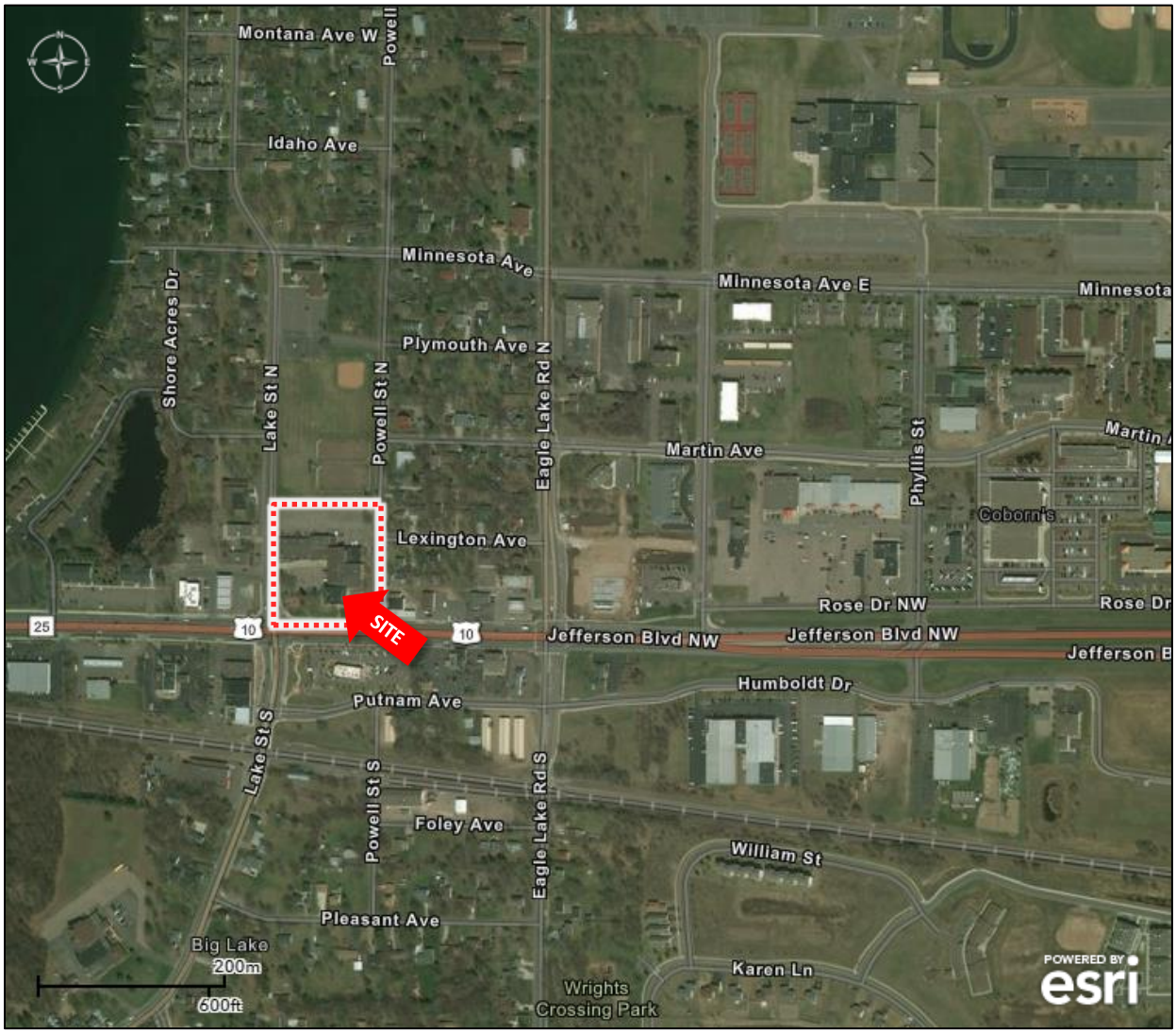
The methodology used to evaluate the market potential for commercial space in this memorandum is proprietary to Maxfield Research but is consistent with methodologies used by analysts throughout the commercial real estate industry. This report includes both primary and secondary research. Primary research includes interviews with City staff. Secondary research is credited to the source when used, and is usually data from the United States Census Bureau or regional planning agencies. Secondary research is always used as a basis for analysis, and is carefully reviewed in light of other factors that may impact projections.

It's important to note that this memorandum represents an initial market assessment. A full market potential analysis would provide a site analysis, comprehensive market information, and absorption projections.

Site Description

It is our understanding that the subject property is an approximately 3.4-acre Site located in the northeast corner of the intersection between Highway 10 and Lake Street North in the City of Big Lake, Minnesota. The Site is currently developed with Big Lake's City Hall, an event center, and commercial space. The portion of Highway 10 adjacent to the Site receives average annual daily traffic of roughly 22,300 vehicle trips per day, while Lake Street experiences approximately 3,900 vehicle trips per day.

Subject Property Location Map



Market Area Definition

Maxfield Research and Consulting, LLC determines Market Areas for commercial space based on geographic and man-made boundaries, commuting patterns, community orientation, places of employment, the distribution of commercial establishments, and our knowledge of the area. Due to factors such as accessibility, traffic volumes, size of the subject property, and visibility of the area, we anticipate that the primary draw area for commercial goods and services in Big Lake will be neighborhood-or convenience-oriented.

Neighborhood centers generally draw customers from a distance of one to three miles, while community centers draw from a larger area (i.e. three to six 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 principal arterial roadways.

Highway 10 is classified as a principal arterial, while Highway 25 is considered to be a minor arterial. Minor arterial roadways serve slightly less concentrated traffic generators than principal arterials, such as neighborhood shopping centers and schools. The most likely retail uses to be drawn to sites in Big Lake will be neighborhood- and convenience-oriented establishments that supply goods and services to area households and auto-oriented customers.

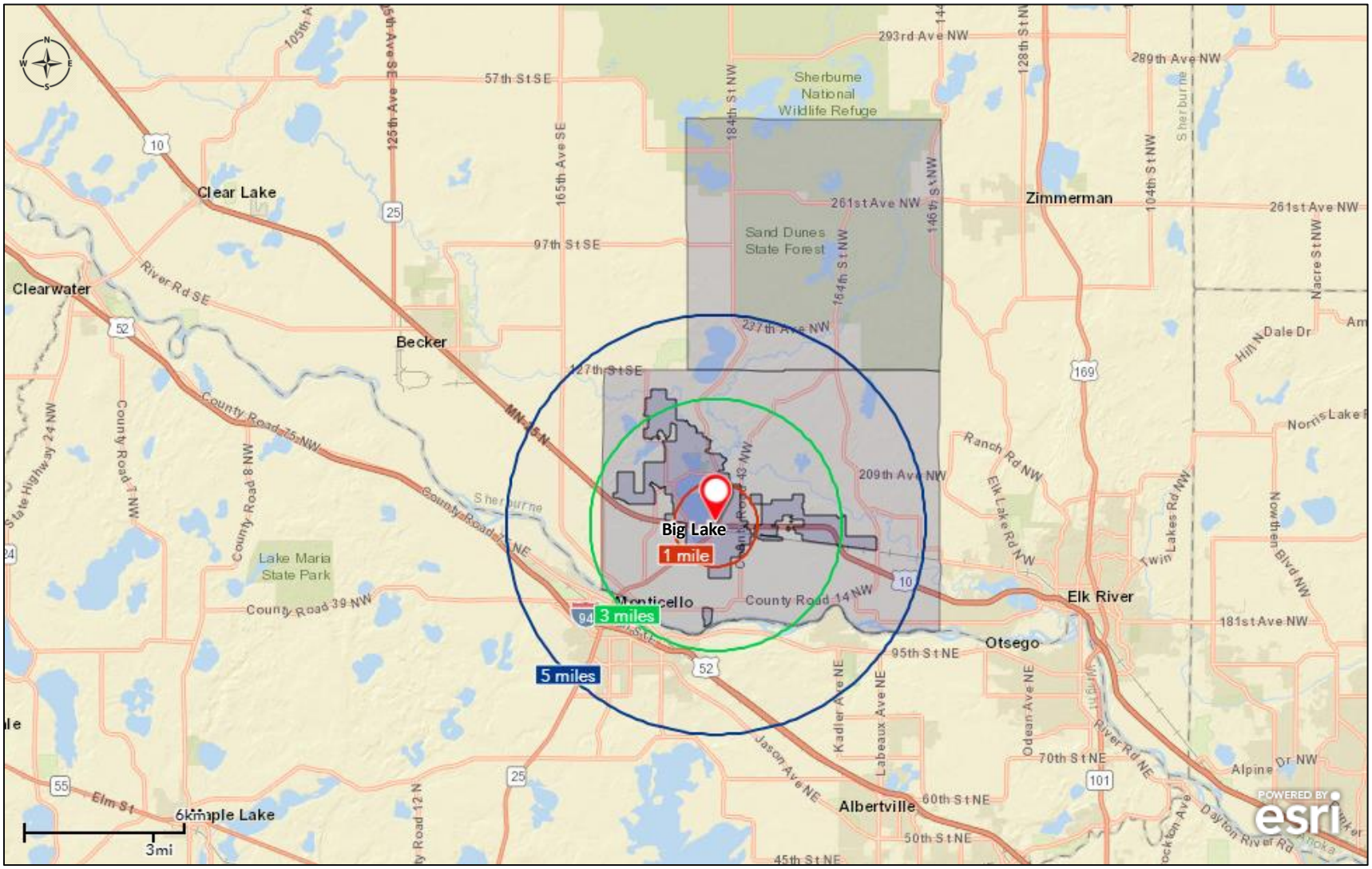
As such we define the Primary Market Area (PMA) for retail goods and services in Big Lake as the following county subdivisions in Sherburne County, Minnesota:

- City of Big Lake;
- Big Lake Township; and,
- Orrock Township.

We anticipate that the primary source of demand for new retail space in Big Lake will be generated by household and consumer expenditure growth in the PMA. However, retailers could also capture potential sales from employees working at businesses establishments in the area, the daily commuting traffic on the surrounding road network, and visitors to Big Lake. As such, we expect that 70% of the demand for retail goods and services in the City will come from the PMA and the remaining 30% will come from sources other than PMA households.

The map on the following page illustrates the geographic boundaries of the PMA, along with one-, three-, and five-mile radii from the commercial core of Big Lake (intersection of Highway 10 and Highway 25). The radius circles are included to illustrate the typical draw area size for neighborhood-oriented retailers.

Primary Market Area



Population and Household Growth Trends

Table 1 presents a summary of 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 2018 estimates and projections for 2020 and 2030 are based on data provided by ESRI (a nationally recognized demographics firm) and the Minnesota State Demographic Center with adjustments made by Maxfield Research to reflect current year data. The following are key points from Table 1.

- As of 2010, the PMA contained 20,897 people and 6,994 households. Between 2000 and 2010, the population increased 33.9% (+5,285) while the number of households expanded 36.7% (+1,879). Big Lake's population jumped 65.9% (+3,997) against household growth of 59.5% (+1,260) during the decade.

- The proportional increase in population was high relative to new households in Big Lake suggesting a trend toward increasing household sizes in the PMA. The trend toward increasing household sizes indicates a general shift in demographic factors that favor larger households, such as a growing proportion of married couple households with children.

TABLE 1
POPULATION AND HOUSEHOLD GROWTH TRENDS AND PROJECTIONS
BIG LAKE MARKET AREA
2000 - 2030

	Census		Estimate	Forecast		Change 2000-2010		Change 2010-2020	
	2000	2010	2018	2020	2030	No.	Pct.	No.	Pct.
Population									
Primary Market Area	**15,612**	**20,897**	**22,603**	**23,050**	**25,013**	**5,285**	**33.9%**	**2,153**	**10.3%**
City of Big Lake	6,063	10,060	11,324	11,547	13,257	3,997	65.9%	1,487	14.8%
Remainder of PMA	*9,549*	*10,837*	*11,279*	*11,503*	*11,756*	*1,288*	*13.5%*	*666*	*6.1%*
Sherburne County	64,417	88,499	94,347	95,990	100,053	24,082	37.4%	7,491	8.5%
MSP, MN-WI MSA*	3,031,918	3,348,859	3,629,971	3,701,606	3,993,052	316,941	10.5%	352,747	10.5%
Households									
Primary Market Area	**5,115**	**6,994**	**7,552**	**7,699**	**8,352**	**1,879**	**36.7%**	**705**	**10.1%**
City of Big Lake	2,117	3,377	3,790	3,864	4,435	1,260	59.5%	487	14.4%
Remainder of PMA	*2,998*	*3,617*	*3,762*	*3,835*	*3,916*	*619*	*20.6%*	*218*	*6.0%*
Sherburne County	21,581	30,212	32,200	32,765	34,206	8,631	40.0%	2,553	8.5%
MSP, MN-WI MSA*	1,160,655	1,299,635	1,402,738	1,429,427	1,561,616	*138,980*	*12.0%*	129,792	10.0%

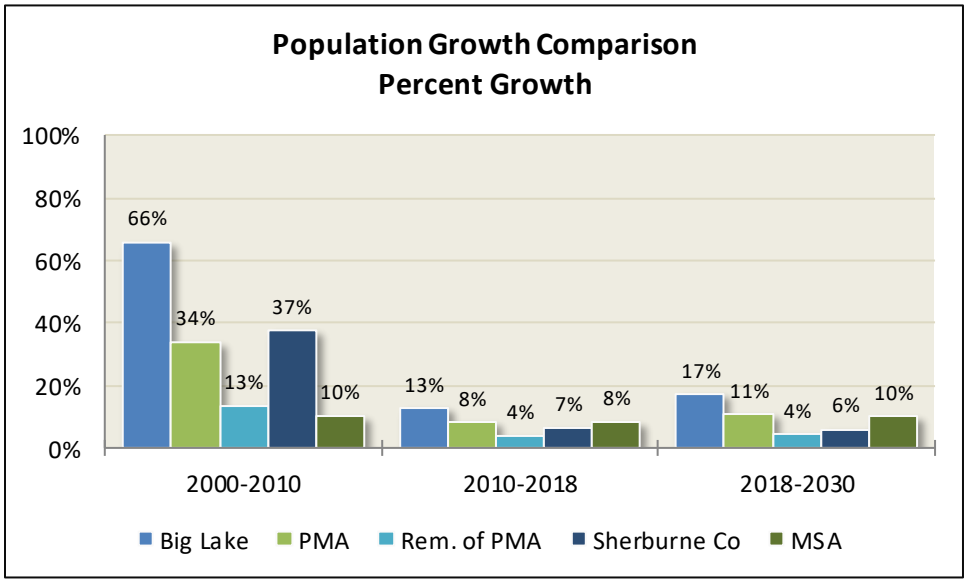
*16-County Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area

Sources: US Census Bureau; ESRI; Minnesota State Demographic Center; Maxfield Research & Consulting, LLC

- The pace of household growth declined late last decade as residential development activity dropped off sharply due to the recession. Housing development has been gradually increasing since 2010, and we estimate that the PMA's population increased 8.2% to 22,603 between 2010 and 2018 while the number of households increased 8.0% (+558).

- Between 2018 and 2030, the PMA is projected to add 2,410 people (+10.7%) and 800 households (+10.6%). The rate of growth in the PMA is expected to be slightly higher than the MSA (10.0% population growth between 2018 and 2030).

- Growth in the City of Big Lake is projected to outpace the Remainder of the PMA, expanding by a total of 1,933 people (+17.14%) and 645 households (+17.0%) between 2018 and 2030. The Remainder of the PMA is projected to add 477 people (+4.2%) and 154 households (+4.1%).



Residential Construction Trends

Building permit data for the City was obtained from the U.S. Census Building Permits Survey (BPS) and the City of Big Lake. Statistics from the BPS are based on reports submitted by local permit officials and the survey covers all jurisdictions that issue building or zoning permits.

Multifamily housing includes both for-sale and rental units, and is defined as residential buildings containing units built one on top of another and those built side-by-side which do not have a ground-to-roof wall and/or have common facilities. Single-family is defined as fully detached, semi-detached (semi-attached, side-by-side), row houses, and townhouses. For attached units, each unit must be separated from the adjacent unit by a ground-to-roof wall and they must not share systems or utilities to be classified as single-family.

The following points summarize the number of units permitted for single-family homes and multifamily structures (includes duplexes, structures with three or four units, and structures with five or more units) from 2000 through 2017 in the City of Big Lake.

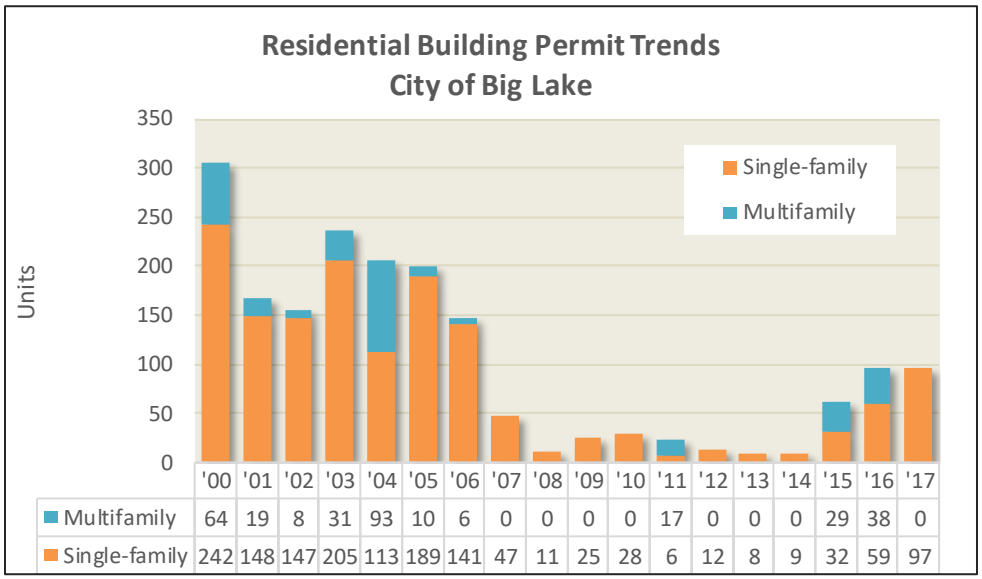
- A total of 1,834 housing units were permitted in Big Lake between 2000 and 2017. Approximately 83% of the permitted units were for single-family homes (1,519 units), while 17% were for multifamily units (315 units).

- Between 2000 and 2010, Big Lake averaged roughly 139 permitted units per year (118 single-family homes and 21 multifamily units).

- Housing unit production in Big Lake has dropped sharply since 2010. The City averaged 44 permitted units annually between 2010 and 2017.

- Single-family construction activity dropped to an average of 32 units per year since 2010, while multifamily activity contracted to an average of 12 units per year.

- As illustrated in the following graph, residential construction activity has increased in recent years, but has not reached the pre-recession levels experienced during the early 2000s.



	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17
Multifamily	64	19	8	31	93	10	6	0	0	0	0	17	0	0	0	29	38	0
Single-family	242	148	147	205	113	189	141	47	11	25	28	6	12	8	9	32	59	97

Daytime Population

Table 2 displays information on the daytime population and resident workforce population in Big Lake. People working in the City who do not reside there provide a potential supplemental commercial market for retail business establishments in the area. Information in the table is based on data from the U.S. Census Bureau Longitudinal Employer-Household Dynamics (LEHD) program for 2010 and 2015, the most recent data available. Outflow reflects the number of workers living in the Market Area but employed outside that area, while inflow measures the number of workers that are employed in the area but live outside the Market Area. Interior flow reflects the number of workers that live and work in that Market Area.

TABLE 2
DAYTIME POPULATION
CITY OF BIG LAKE, MINNESOTA
2010 - 2015

	2010	2015	% Change 2010 - 2015
Daytime Population	**2,394**	**2,417**	**1.0%**
Inflow	2,085	1,991	-4.5%
Interior Flow	309	426	37.9%
Resident Workforce	**4,577**	**5,841**	**27.6%**
Outflow	4,268	5,415	26.9%
Interior Flow	309	426	37.9%
Net Job Inflow (+) or Outflow (-)	**-2,183**	**-3,424**	**56.8%**
Live Here/Work Here Ratio	**0.52**	**0.41**	**-20.9%**

Sources: US Census Bureau LEHD; Maxfield Research & Consulting, LLC

- As depicted in the table, the City of Big Lake had a daytime population of 2,417 in 2015, a 1.0% increase since 2010. Big Lake is an exporter of workers, meaning that more residents commute out of the City for employment than non-residents commute into the City. With 1,991 workers commuting into the City, Big Lake experienced a net outflow of -3,424 workers in 2015 as 5,415 workers commuted out of the City.

- Over 82% of the jobs in Big Lake (1,991) were filled by workers commuting into the City in 2015, while 426 jobs were filled by residents already living in Big Lake. Inflow in the City declined -4.5% between 2010 and 2015, while interior flow (workers that both reside and work in the City) increased nearly 38%.

- The daytime population commuting into Big Lake (1,991 workers in 2015) will contribute retail sales, along with area households, in the Market Area as employees at establishments located in Big Lake will purchase commercial goods and services from area retailers. Restaurants, in particular, will benefit from an expanding daytime population in the City.

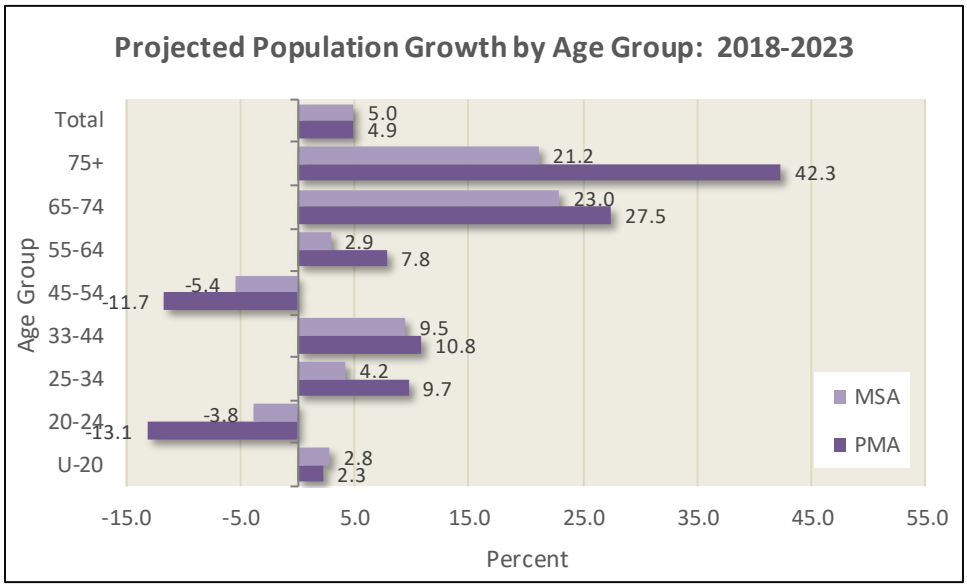
- Approximately 53% of the daytime population in Big Lake is aged 30 to 54. Nearly 39% of the workers in Big Lake earn more than $3,333 per month ($40,000 per year), while 34% earn $1,250 or less per month. Over 59% are employed in the service industry. More detailed information is presented in the "Commuting Patterns" portion of this study.

Age Distribution

The age distribution of a community's population helps to understand the type(s) of commercial services needed. Younger people typically seek retail services such as entertainment, electronics, and specialty apparel. Child stores increase in popularity for the 25 to 34 and 35 to 44 age cohorts while home furnishings are more frequently sought by the 45 to 54 and 55 to 64 age groups.

Table 3 on the following page presents the age distribution of the Market Area population from 2000 to 2023. Information from 2000 and 2010 is sourced from the U.S. Census. The 2018 estimates and projections for 2023 were calculated by Maxfield Research based on information from ESRI, a reputable national demographics firm.

- In 2018, we estimate that the largest adult cohort by age in the PMA is 25 to 34, totaling 3,463 people (15.3% of the population), followed by the 35 to 44 age group with 3,231 people (14.3%) and the 45 to 54 age group with 3,147 people (13.9%). The 25 to 34 age group is also estimated to be the largest cohort in the MSA with 14.2% of the total population.



- Greatest growth is projected to occur among older adults in the Market Area. Aging of baby boomers led to a 112% increase (+1,028 people) in the 55 to 64 population between 2000 and 2010 in the PMA, while the MSA experienced a 64% increase in this age group.

- As this group ages, the 65 to 74 age group is projected to experience strong growth, adding 384 people (+28%) in the PMA between 2018 and 2023, while the 75 and older age group expands 42% (+228 people).

TABLE 3
AGE DISTRIBUTION
BIG LAKE MARKET AREA
2000 - 2023

	Census		Estimate	Projection	Change 2000-2010		Change 2018-2023	
Age	2000	2010	2018	2023	No.	Pct.	No.	Pct.
Primary Market Area								
Under-20	5,523	7,085	6,948	7,104	1,562	28.3	157	2.3
20 to 24	855	1,023	1,319	1,146	168	19.6	-173	-13.1
25 to 34	2,666	2,990	3,463	3,800	324	12.2	337	9.7
35 to 44	2,987	3,456	3,231	3,581	469	15.7	350	10.8
45 to 54	1,921	3,151	3,147	2,780	1,230	64.0	-367	-11.7
55 to 64	919	1,947	2,559	2,760	1,028	111.9	200	7.8
65 to 74	424	804	1,398	1,782	380	89.6	384	27.5
75+	317	441	538	766	124	39.1	228	42.3
Total	**15,612**	**20,897**	**22,603**	**23,719**	**5,285**	**33.9**	**1,116**	**4.9**
Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area								
Under-20	892,581	923,080	941,324	967,872	30,499	3.4	26,548	2.8
20 to 24	196,852	217,813	241,864	232,616	20,961	10.6	-9,247	-3.8
25 to 34	464,231	485,863	515,422	537,174	21,632	4.7	21,752	4.2
35 to 44	538,126	463,867	481,888	527,504	-74,259	-13.8	45,616	9.5
45 to 54	413,976	518,756	492,296	465,620	104,780	25.3	-26,675	-5.4
55 to 64	231,504	379,150	469,125	482,732	147,646	63.8	13,607	2.9
65 to 74	150,631	193,255	290,691	357,426	42,624	28.3	66,735	23.0
75+	144,017	167,075	196,542	238,114	23,058	16.0	41,572	21.2
Total	**3,031,918**	**3,348,859**	**3,629,153**	**3,809,060**	**316,941**	**10.5**	**179,907**	**5.0**

Sources: U.S. Census Bureau; ESRI; Maxfield Research & Consulting, LLC

- A decline in the middle age cohorts is projected between 2018 and 2023 in the Market Area. The 45 to 54 age cohort is expected to contract -12% in the PMA (-367 people) and decline -5.4% in the MSA.

- The weak growth projected for the middle age population is a result of the comparatively small number of people who will move into those age cohorts between 2018 and 2023, 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.

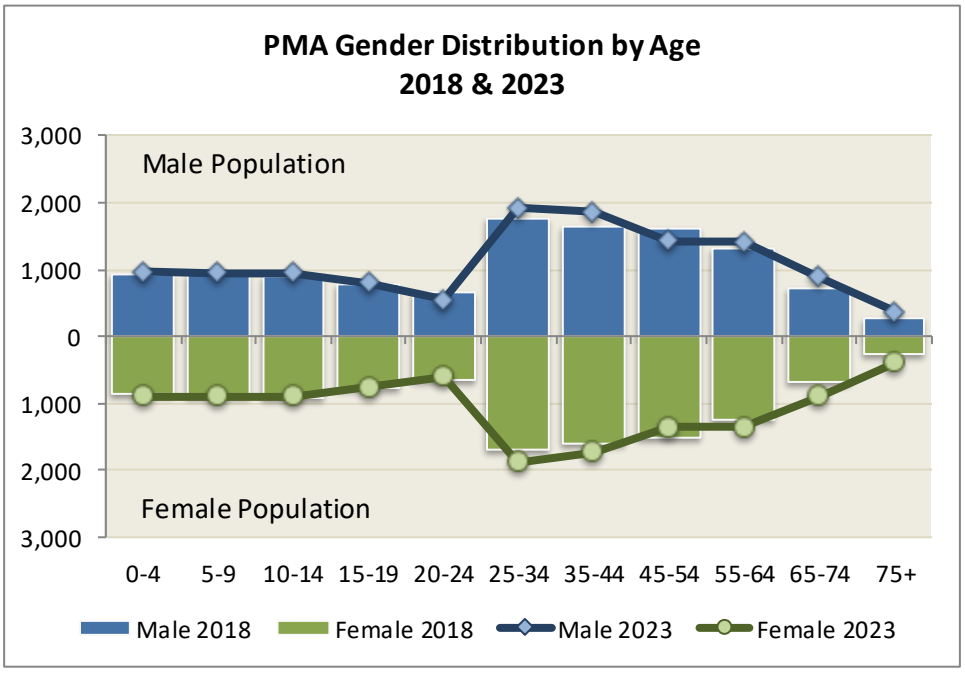
- The PMA is expected to experience solid growth in the age 25 to 34 and 35 to 44 cohorts, expanding 10% (+337 people) and 11% (+350 people), respectively. The 55 to 64 age group is projected to expand by 200 people (+8%).

Gender Distribution by Age Group

In addition to the age of a community's population, understanding the gender distribution also helps in assessing the types of commercial services and products needed in a trade area. Table 4 on the following page presents the gender distribution by age group of the PMA population from 2010 to 2023. Information from 2010 is sourced from the U.S. Census. The 2018 estimates and projections for 2023 were calculated by Maxfield Research based on information from ESRI, a reputable national demographics firm.

- In 2018, the composition of the PMA population was fairly balanced between males and females, with males comprising 50.9% of the population (11,512) while 49.1% was female (11,091). Male population growth is projected to slightly outpace female population growth between 2018 and 2023, adding 574 males (+5.0%) while the female population increases by 542 (+4.9%).

- The greatest growth between 2018 and 2023 will occur in the 65 to 74 age group, adding 213 females (+31%) and 171 males (+24%). The youth population (under-20) is expected to add 123 males (+3.5%) and 33 females (+1.0), with the most significant growth occurring in the 0 to 4 age group.



- The adult population (age 20 to 64) will experience gains in the 25 to 34 (+156 males and +182 females), 35 to 44 (+212 males and +138 females), and the 55 to 64 (+102 males and +98 females) age groups. These increases will be partially offset by declining population in the 45 to 54 age group (-201 males and -166 females.)

TABLE 4
GENDER DISTRIBUTION BY AGE GROUP
PRIMARY MARKET AREA
2010 - 2023

	Census					Estimate					Projection					Change			
	2010					2018					2023					2018 - 2023			
	Male		Female		Total	Male		Female		Total	Male		Female		Total	Male		Female	
	No.	Pct.	No.	Pct.	No.	No.	Pct.	No.	Pct.	No.	No.	Pct.	No.	Pct.	No.	No.	Pct.	No.	Pct.
Youth	**3,559**	**50.2**	**3,526**	**49.8**	**7,085**	**3,545**	**51.0**	**3,403**	**49.0**	**6,948**	**3,668**	**51.6**	**3,436**	**48.4**	**7,104**	**123**	**3.5**	**33**	**1.0**
0 to 4	918	51.7	858	48.3	1,776	930	52.2	851	47.8	1,781	971	52.2	889	47.8	1,860	41	4.4	39	4.5
5 to 9	902	48.3	967	51.7	1,869	940	51.5	887	48.5	1,827	948	51.4	895	48.6	1,843	7	0.8	8	0.9
10 to 14	943	50.1	940	49.9	1,883	901	49.9	906	50.1	1,807	955	51.6	895	48.4	1,850	54	6.0	-11	-1.2
15 to 19	796	51.1	761	48.9	1,557	774	50.4	760	49.6	1,534	794	51.2	757	48.8	1,551	20	2.6	-3	-0.4
Adult	**6,444**	**51.3**	**6,123**	**48.7**	**12,567**	**6,987**	**50.9**	**6,732**	**49.1**	**13,719**	**7,154**	**50.9**	**6,913**	**49.1**	**14,067**	**167**	**2.4**	**181**	**2.7**
20 to 24	528	51.6	495	48.4	1,023	656	49.8	663	50.2	1,319	554	48.4	592	51.6	1,146	-102	-15.6	-71	-10.7
25 to 34	1,495	50.0	1,495	50.0	2,990	1,764	50.9	1,699	49.1	3,463	1,920	50.5	1,881	49.5	3,800	156	8.8	182	10.7
35 to 44	1,771	51.2	1,685	48.8	3,456	1,641	50.8	1,590	49.2	3,231	1,853	51.7	1,728	48.3	3,581	212	12.9	138	8.7
45 to 54	1,642	52.1	1,509	47.9	3,151	1,622	51.5	1,525	48.5	3,147	1,421	51.1	1,359	48.9	2,780	-201	-12.4	-166	-10.9
55 to 64	1,008	51.8	939	48.2	1,947	1,303	50.9	1,256	49.1	2,559	1,405	50.9	1,355	49.1	2,760	102	7.8	98	7.8
Senior	**624**	**50.1**	**621**	**49.9**	**1,245**	**981**	**50.7**	**955**	**49.3**	**1,936**	**1,265**	**49.6**	**1,283**	**50.4**	**2,548**	**284**	**29.0**	**328**	**34.3**
65 to 74	429	53.4	375	46.6	804	717	51.3	681	48.7	1,398	888	49.9	893	50.1	1,782	171	23.9	213	31.3
75+	195	44.2	246	55.8	441	264	49.0	275	51.0	538	377	49.1	390	50.9	766	113	42.9	115	41.9
Total	**10,627**	**50.9**	**10,270**	**49.1**	**20,897**	**11,512**	**50.9**	**11,091**	**49.1**	**22,603**	**12,086**	**51.0**	**11,633**	**49.0**	**23,719**	**574**	**5.0**	**542**	**4.9**

Sources: U.S. Census Bureau; ESRI; Maxfield Research & Consulting, LLC

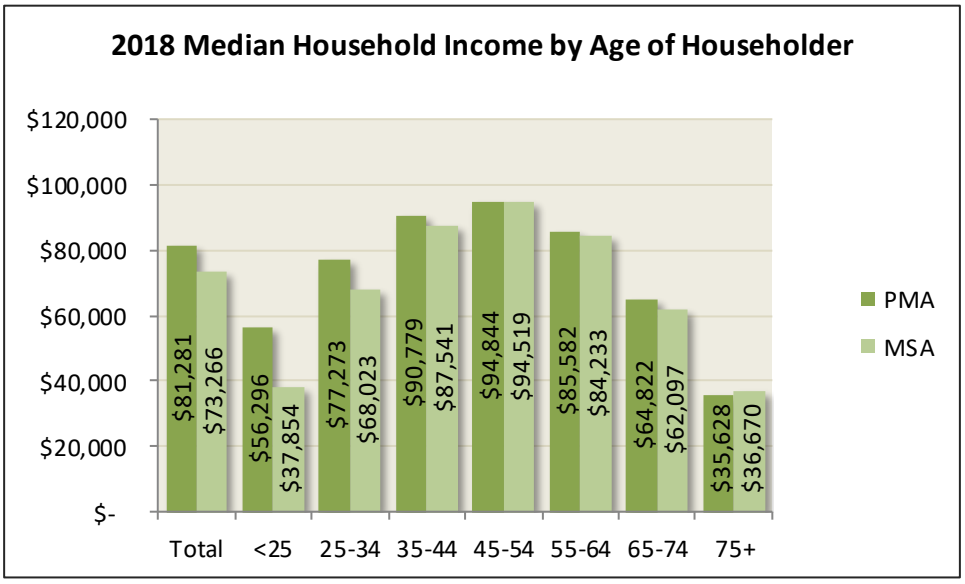
Household Income

Income data is useful in that it can reflect wage trends and helps assess living conditions and reveal demand for different types of retail goods and 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.

The next table presents data on household income by age of householder in 2018 and 2023 for the PMA. The data is estimated by ESRI, a nationally recognized demographic services firm, and adjusted by Maxfield Research to reflect the most current local household estimates and projections. The following points summarize key findings.

- In 2018, the median household income is estimated to be approximately $81,281 in the PMA, compared to $73,266 in the MSA.

- As households age through the lifecycle, their household income tends to peak in their 40s and early 50s. This trend is evident in the Market Area as the age 45 to 54 age cohort has the highest estimated incomes at $94,844 in the PMA and $94,519 in the MSA.



- By 2023, the median household income is projected to increase 7.8% to $87,645 in the PMA, compared to 10.3% growth in the MSA. The average annual increase between 2018 and 2023 in the PMA (+1.6%) will slightly trail the historical annual inflation rate in the United States of 1.7% over the past ten years.

TABLE 5
HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER
PRIMARY MARKET AREA
2018 & 2023

		Age of Householder						
	Total	**<25**	**25-34**	**35-44**	**45-54**	**55-64**	**65 -74**	**75+**
2018								
Less than $15,000	202	9	28	32	24	40	38	29
$15,000 to $24,999	412	17	52	60	55	62	94	74
$25,000 to $34,999	523	32	104	88	73	83	75	69
$35,000 to $49,999	683	24	140	112	113	135	90	68
$50,000 to $74,999	1,579	65	394	313	304	266	175	64
$75,000 to $99,999	1,441	32	323	338	341	266	125	15
$100,000 to $199,999	2,450	32	410	642	661	489	188	27
$200,000 or more	262	0	29	55	100	54	23	1
Total	**7,552**	**212**	**1,481**	**1,640**	**1,671**	**1,394**	**808**	**346**
Median Income	**$81,281**	**$56,296**	**$77,273**	**$90,779**	**$94,844**	**$85,582**	**$64,822**	**$35,628**
2023								
Less than $15,000	223	11	34	38	22	38	42	36
$15,000 to $24,999	417	19	50	57	41	53	100	97
$25,000 to $34,999	502	31	98	85	54	74	78	83
$35,000 to $49,999	641	22	131	104	85	116	97	86
$50,000 to $74,999	1,435	58	366	288	217	231	190	86
$75,000 to $99,999	1,395	31	322	335	266	260	157	24
$100,000 to $199,999	2,966	39	534	803	647	603	287	53
$200,000 or more	341	0	45	75	104	73	41	3
Total	**7,920**	**212**	**1,581**	**1,784**	**1,436**	**1,447**	**992**	**468**
Median Income	**$87,645**	**$57,068**	**$82,887**	**$100,691**	**$104,091**	**$96,514**	**$75,303**	**$37,676**
Change 2018 - 2023								
Less than $15,000	21	2	6	6	-2	-2	4	7
$15,000 to $24,999	5	2	-1	-3	-13	-9	6	23
$25,000 to $34,999	-21	-1	-6	-3	-19	-9	3	14
$35,000 to $49,999	-41	-2	-9	-8	-28	-19	7	18
$50,000 to $74,999	-145	-7	-28	-25	-87	-34	15	22
$75,000 to $99,999	-47	-1	-1	-3	-76	-6	31	9
$100,000 to $199,999	516	7	124	161	-14	114	99	25
$200,000 or more	80	0	16	20	4	19	18	2
Total	**368**	**-0**	**101**	**144**	**-235**	**53**	**184**	**121**
Median Income	**$6,364**	**$772**	**$5,614**	**$9,912**	**$9,247**	**$10,932**	**$10,480**	**$2,048**

Sources: ESRI; US Census Bureau; Maxfield Research & Consulting, LLC

- In the PMA, the 35 to 44 and 65 to 74 age groups are projected to experience significant household increases between 2018 and 2023, climbing 9% (+144 households) and 23% (+184 households), respectively. The 25 to 34 and 55 to 64 age groups are also projected to grow, but more modestly, adding 101 households (+6.8%) and 53 households (+3.8%), respectively.

- Median incomes in these age groups are also expected to climb, suggesting that there will be a growing opportunity for retail goods and services catering to these age groups.

- In the PMA, household growth is expected to occur in the upper-income brackets, as the number of households with incomes between $100,000 and $200,000 increases 21% (+516 households) while the number of households with incomes of $200,000 or higher grows 30% (+80 households).

- Household growth in these higher-income brackets suggests that there will be more demand for discretionary retail goods and services (i.e. dining, home furnishings, specialty apparel, recreation, sporting goods, luxury items).

Consumer Expenditure Patterns

Table 6 shows estimated consumer expenditures and average expenditures per household for retail goods and services in the PMA compared to the MSA in 2017, 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 Market Area and the amount spent in the Metro Area 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 MSA 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 gained confidence and spending gradually recovered. The Conference Board's Consumer Confidence Index rose to its highest level since summer 2007 in early 2015, and has since climbed to over 120 in spring 2017, a level not experienced since the year 2000. An increase in consumer confidence suggests economic growth with higher consumption.

The following are key points from the household expenditures table.

- Overall, PMA residents spent an estimated $200 million on retail goods and services in 2017, excluding housing, finance/insurance, and travel expenditures, as well as vehicle purchases.

- Average annual expenditures (excluding the categories mentioned above) are estimated to be $25,795 per household in the PMA. This compares to an average of $26,715 per household in the MSA.

- As reflected in the SPI, expenditures by Market Area households are higher than the national average in nearly every product and service category (all categories except for smoking products).

- Total average annual expenditures per household are estimated to be approximately $65,984 in the PMA and $67,155 in the MSA.

- Housing expenses account for approximately 29.0% of total consumer expenditures in the PMA, compared to 27.9% in the MSA. PMA households spend roughly 2.1% more per year on housing costs than the MSA average.

- Compared to the MSA, PMA residents are allocating a slightly lower portion of their resources toward retail goods and services (most notably Entertainment and Recreation) as well as food.

- Among the retail categories, Market Area spending was greatest for Food at Home (i.e. groceries) at an average of $5,548 per household in the PMA compared to $5,850 per household in the MSA.

- Spending was also high for Food Away from Home ($3,869 per PMA household) and Entertainment and Recreation ($3,542 per household in the PMA).

- The 7,552 households in the PMA spent an estimated $503.4 million on consumer expenditures in 2017. With the number of households projected to grow to 7,920 by 2023, they would generate an additional $4.9 million in consumer expenditures annually, not factoring in inflation.

TABLE 6
ESTIMATED HOUSEHOLD EXPENDITURES BY SELECTED PRODUCT TYPE
PRIMARY MARKET AREA
2017

	PMA Annual Expenditures		MSA Expenditures	Spending Potential Index to USA	
Category	Total ($000's)	Average Per HH	Average Per HH	PMA	MSA
Goods & Services				**Index**	**Index**
Apparel & Services	$18,955	$2,510	$2,579	116	119
Entertainment and Recreation	$26,753	$3,542	$3,660	114	117
Nonprescription Drugs	$1,034	$137	$145	107	114
Prescription Drugs	$3,105	$411	$433	106	111
Eye Glasses & Contact Lenses	$797	$105	$110	112	116
Personal Care Products	$4,037	$535	$555	114	118
Child Care	$4,657	$617	$591	129	124
School Books & Supplies	$1,388	$184	$187	119	121
Smoking Products	$2,986	$395	$454	95	109
Computer Hardware	$1,506	$199	$210	115	121
Computer Software	$100	$13	$14	115	123
Pets	$5,063	$670	$680	112	114
Food				**Index**	**Index**
Food at Home	$41,896	$5,548	$5,850	110	116
Food Away from Home	$29,220	$3,869	$3,974	116	119
Alcoholic Beverages	$4,743	$628	$671	113	121
Home				**Index**	**Index**
Home Mortgage Payment/Rent	$82,146	$10,877	$10,259	126	119
Maintenance & Remodeling Services	$17,488	$2,316	$2,271	119	117
Maintenance & Remodeling Materials	$3,561	$472	$453	116	112
Utilities	$41,360	$5,477	$5,769	109	115
Household Furnishings, Equipment, & Operations				**Index**	**Index**
Household Textiles	$815	$108	$114	113	119
Furniture	$5,072	$672	$688	117	120
Rugs	$191	$25	$28	109	120
Major Appliances	$2,875	$381	$369	119	115
Small Appliances	$394	$52	$57	108	118
Housewares	$830	$110	$112	116	118
Luggage	$105	$14	$15	118	122
Telephone & Accessories	$627	$83	$84	120	121
Lawn & Garden	$3,642	$482	$479	115	114
Moving/Storage/Freight Express	$533	$71	$78	110	122
Housekeeping Supplies	$6,027	$798	$825	112	116
Financial & Insurance				**Index**	**Index**
Investments	$52,702	$6,979	$7,428	113	120
Vehicle Loans	$23,723	$3,141	$3,128	115	115
Owners & Renters Insurance	$4,487	$594	$586	115	113
Vehicle Insurance	$9,864	$1,306	$1,368	111	116
Life/Other Insurance	$3,692	$489	$498	114	116
Health Insurance	$30,745	$4,071	$4,200	111	115

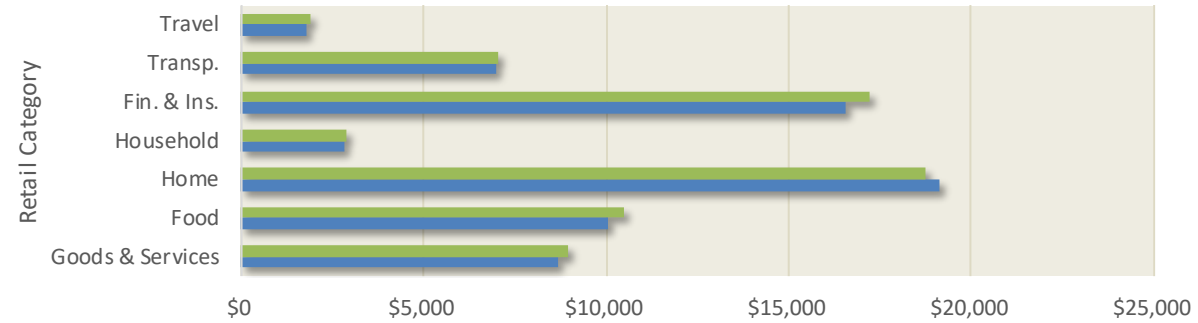
CONTINUED

TABLE 6 CONTINUED
ESTIMATED HOUSEHOLD EXPENDITURES BY SELECTED PRODUCT TYPE
PRIMARY MARKET AREA
2017

Category	PMA Annual Expenditures Total ($000's)	PMA Annual Expenditures Average Per HH	MSA Expenditures Average Per HH	Spending Potential Index to USA PMA	Spending Potential Index to USA MSA
Transportation				**Index**	**Index**
Cars and Trucks (Net Outlay)	$20,116	$2,664	$2,617	119	117
Gasoline and Motor Oil	$23,435	$3,103	$3,186	112	115
Vehicle Maintenance/Repair	$9,079	$1,202	$1,248	112	116
Travel				**Index**	**Index**
Airline Fares	$4,456	$590	$618	116	121
Lodging	$4,606	$610	$624	116	119
Vehicle Rental	$238	$32	$32	120	120
Food & Drink on Trips	$4,328	$573	$588	116	119
Average Annual Household Expenditures Summary					
Goods & Services	$70,380	$8,649	$8,939		
Food	$75,859	$10,045	$10,495		
Home	$144,555	$19,141	$18,753		
Household	$21,110	$2,795	$2,847		
Financial and Insurance	$125,213	$16,580	$17,208		
Transportation	$52,630	$6,969	$7,051		
Travel	$13,629	$1,805	$1,862		
Total	***$503,377***	***$65,984***	***$67,155***		

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 & Consulting, LLC



	Goods & Services	Food	Home	Household	Fin. & Ins.	Transp.	Travel
MSA	$8,939	$10,495	$18,753	$2,847	$17,208	$7,051	$1,862
PMA	$8,649	$10,045	$19,141	$2,795	$16,580	$6,969	$1,805

Employment Trends

Employment characteristics are an important component in assessing real estate needs in any given market area. These trends are notable since job growth can generally fuel household and population growth as people typically desire to live near where they work. Job growth is a primary driver of demand for commercial real estate, particularly office space, although increased hiring in a market area can also lead to higher levels of consumer spending, stimulating demand for retail space.

The following employment projections, resident employment data, and industry employment information for Big Lake and Sherburne County is compared to the Central Minnesota Planning Area as defined by the Minnesota Department of Employment and Economic Development (DEED). Central Minnesota includes the following counties: Benton, Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, Stearns, and Wright.

Employment Growth

Table 7 on the following page shows employment growth trends and projections from 2000 to 2025 based on the most recent information available from DEED for the City of Big Lake, the PMA, and Central Minnesota. Data for 2000, 2005, 2010, and 2016 represents the annual average employment for that year. Employment projections for 2020 and 2025 are based on 2014-2024 industry projections published for Central Minnesota by DEED, the most recent forecast available. Maxfield Research applied the projected annual rate of growth to the 2016 employment data to arrive at the employment forecast for Central Minnesota. We then projected employment for the PMA based on a review of changes to the proportion of the Region's growth that occurred in the PMA between 2010 and 2016.

- In 2000, there were 1,176 reported jobs in Big Lake. Despite the economic recession, employment expanded 21.4% (+367 jobs) between 2000 and 2010 in Big Lake.

- By comparison, employment in the Remainder of Sherburne County increased 16.4% (+2,848 jobs) during that period, while employment in Central Minnesota expanded 4.9% between 2000 and 2010.

- Data from the Quarterly Census of Employment and Wages indicates that employment in Big Lake expanded 19.0% (+396 jobs) between 2010 and 2016, while employment in the Remainder of the County increased 13.6% (+2,757 jobs).

- Based on job growth rate projections for Central Minnesota provided by DEED, we anticipate that Big Lake will add 108 jobs by 2020, an increase of 4.3%.

- Solid job growth is expected in the Market Area between 2016 and 2020. Sherburne County is projected to experience a 5.3% gain (+1,348 jobs), while Central Minnesota employment expands 3.1%.

- Another 141 jobs (+5.4%) are expected to be added in Big Lake between 2020 and 2025, while employment in the Remainder of Sherburne County expands 5.4% (+1,318 jobs) and Central Minnesota employment increases 3.9%. The pace of job growth is projected to slow after 2020, as the region will experience potential labor force shortages and a surge in retirements.

- Projected job growth in Big Lake will increase the daytime population in the City, generating additional demand for commercial goods and services from area retailers.

TABLE 7
EMPLOYMENT GROWTH TRENDS AND PROJECTIONS
BIG LAKE MARKET AREA
2000 to 2025

Annual Employment	City of Big Lake		Sherburne County		*Remainder of County*		Central Minnesota	
2000	1,716		19,088		*17,372*		233,865	
2005	2,095		23,318		*21,223*		251,517	
2010	2,083		22,303		*20,220*		245,310	
2016	2,479		25,456		*22,977*		270,545	
2020 Forecast	**2,587**		**26,804**		***24,218***		**278,975**	
2025 Forecast	**2,727**		**28,263**		***25,536***		**289,882**	
Change	**No.**	**Pct.**	**No.**	**Pct.**	***No.***	***Pct.***	**No.**	**Pct.**
2000 - 2010	367	21.4%	3,215	16.8%	*2,848*	*16.4%*	11,445	4.9%
2010 - 2016	396	19.0%	3,153	14.1%	*2,757*	*13.6%*	25,235	10.3%
2016 - 2020	**108**	**4.3%**	**1,348**	**5.3%**	***1,241***	***5.4%***	**8,430**	**3.1%**
2020 - 2025	**141**	**5.4%**	**1,459**	**5.4%**	***1,318***	***5.4%***	**10,907**	**3.9%**

Sources: MN DEED; Maxfield Research & Consulting, LLC

Resident Employment

Table 8 on the following page shows information on the resident labor force and employment in Sherburne County compared to the Central Minnesota, Minnesota, and the United States. Data for the City of Big Lake is not available. The data is sourced from the Minnesota Department of Employment and Economic Development (DEED). Resident employment data reveals the work force and number of employed people living in the area. Therefore, not all of these individuals necessarily work in the area.

- At 3.9%, the 2017 annual average unemployment rate in Sherburne County is slightly lower than Central Minnesota (4.0%) but slightly higher than Minnesota (3.6%). However, it is notably lower than the 4.4% unemployment rate across the United States.

- Unemployment rates in the Market Area experienced modest contraction over the past year, declining -0.3% in Sherburne County, -0.3% in Central Minnesota, and -0.2% in Minnesota.

TABLE 8
LOCAL AREA UNEMPLOYMENT STATISTICS
BIG LAKE MARKET AREA

	2017			2016		
	Labor Force	Employment	UE Rate	Labor Force	Employment	UE Rate
Sherburne Co.	50,681	48,710	3.9%	49,647	47,592	4.1%
Central MN	387,853	372,255	4.0%	382,367	365,893	4.3%
Minnesota	3,046,697	2,937,552	3.6%	3,026,752	2,912,693	3.8%
U.S. ('000s)	160,320	153,337	4.4%	159,187	151,436	4.9%

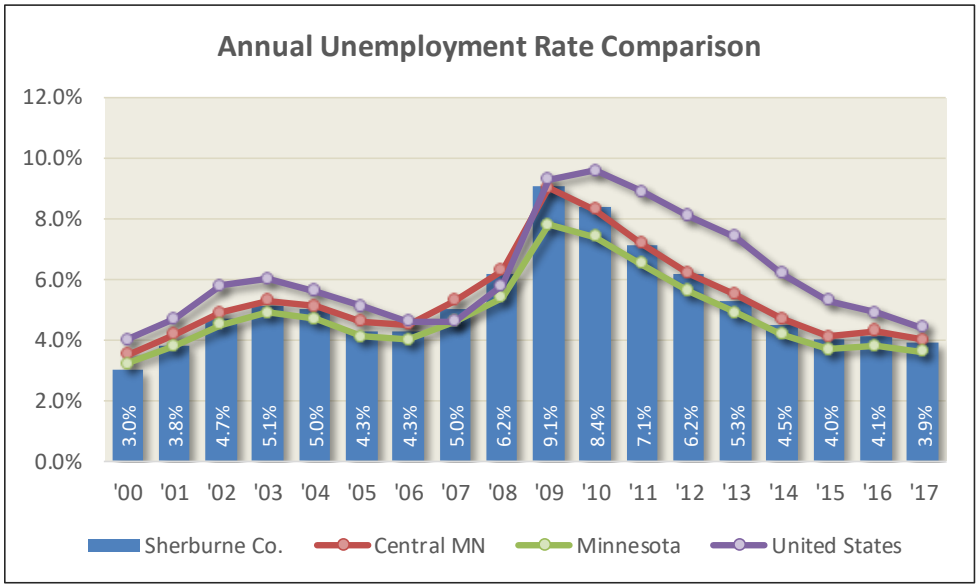
Data not seasonally adjusted

Sources: MN DEED; Maxfield Research & Consulting, LLC

- It appears that hiring is outpacing labor force growth throughout the Market Area, driving the unemployment rate down.

- Sherburne County's labor force expanded 2.1% (+1,034) between 2016 and 2017, while the number of employed residents increased 2.3% (+1,118). The labor force in Central Minnesota increased 1.4% against 1.7% resident employment growth over the year

- The following chart illustrates how unemployment in the Market Area has mirrored national trends but has remained well below the national rate throughout much of the past decade. Sherburne County's unemployment rate has tracked consistently with unemployment trends in Central Minnesota and the State of Minnesota.



Industry Employment and Wage Data

Table 9 on the following page displays information on the employment and wage situation in Big Lake compared to Sherburne County and Central Minnesota. The Quarterly Census of Employment and Wages (QCEW) data is sourced from DEED for the third quarter of 2016 compared to the third quarter of 2017, the most recent data available.

All establishments covered under the Unemployment Insurance (UI) Program are required to report wage and employment statistics to DEED quarterly. Certain industries in the table may not display any information which means that there is either no reported economic activity for that industry or the data has been suppressed to protect the confidentiality of cooperating employers. This generally occurs when there are too few employers or one employer comprises too much of the employment in that geography.

- In Big Lake, total employment contracted -7.5% (-189 jobs) between the third quarters of 2016 and 2017, as the Leisure and Hospitality and Manufacturing sectors declined by -67 jobs (-13.9%) and -61 jobs (-14.0%), respectively.

- Sherburne County employment contracted -0.1% during that same time period, losing -33 jobs, as employment in the Trade, Transportation, and Utilities sector declined -3.7% (-230 jobs).

- The Education and Health Services industry is the largest employment sector in Big Lake, providing 611 jobs (26 of total employment) in the City.

- Trade, Transportation, and Utilities is the largest employment sector in the County with 5,933 jobs (23%), followed by Education and Health Services with 5,173 jobs (20%).

- Average weekly wages in Big Lake ($676) are -20% lower than the County ($849) and roughly -16% lower than Central Minnesota ($809). Wages declined slightly over the year in the Market Area, contracting -1.9% in Big Lake and -0.9% in Sherburne County.

- In Big lake, the highest average wages are found in the Manufacturing ($1,152) and Education and Health Services ($837) sectors, while highest wages in Sherburne County are in the Construction ($1,134) and Manufacturing ($1,095) sectors.

- Of the 428 Trade, Transportation, and Utilities jobs in Big Lake, 70% are in the Retail Trade industry (298 jobs) as of the third quarter of 2017. The average weekly wage in the Retail Trade industry is $368, roughly -32% lower than the average Retail Trade wage in Sherburne County ($538).

TABLE 9
QUARTERLY CENSUS OF EMPLOYMENT AND WAGES
BIG LAKE MARKET AREA

Industry	2016 Q3 Establish-ments	2016 Q3 Employ-ment	2016 Q3 Weekly Wage	2017 Q3 Establish-ments	2017 Q3 Employ-ment	2017 Q3 Weekly Wage	Change 2016 Q3 - 2017 Q3 Employment #	Employment %	Wage #	Wage %
CITY OF BIG LAKE										
Total, All Industries	200	2,505	$689	203	2,316	$676	-189	-7.5%	($13)	-1.9%
Natural Resources & Mining	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Manufacturing	15	436	$1,311	14	375	$1,152	-61	-14.0%	($159)	-12.1%
Trade, Transportation, Utilities	38	450	$499	38	428	$479	-22	-4.9%	($20)	-4.0%
Information	--	--	--	--	--	--	--	--	--	--
Financial Activities	16	52	$702	18	60	$634	8	15.4%	($68)	-9.7%
Professional & Business Services	--	--	--	--	--	--	--	--	--	--
Education & Health Services	28	627	$812	29	611	$837	-16	-2.6%	$25	3.1%
Leisure & Hospitality	24	483	$241	24	416	$246	-67	-13.9%	$5	2.1%
Other Services	31	135	$400	32	132	$396	-3	-2.2%	($4)	-1.0%
Public Administration	4	138	$583	4	134	$614	-4	-2.9%	$31	5.3%
SHERBURNE COUNTY										
Total, All Industries	1,859	25,547	$857	1,946	25,514	$849	-33	-0.1%	($8)	-0.9%
Natural Resources & Mining	33	589	$718	33	616	$715	27	4.6%	($3)	-0.4%
Construction	378	2,187	$1,170	396	2,345	$1,134	158	7.2%	($36)	-3.1%
Manufacturing	144	3,673	$1,076	152	3,757	$1,095	84	2.3%	$19	1.8%
Trade, Transportation, Utilities	350	6,163	$882	345	5,933	$863	-230	-3.7%	($19)	-2.2%
Information	15	137	$782	17	88	$914	-49	-35.8%	$132	16.9%
Financial Activities	122	484	$922	132	508	$903	24	5.0%	($19)	-2.1%
Professional & Business Services	219	1,903	$798	233	1,863	$761	-40	-2.1%	($37)	-4.6%
Education & Health Services	195	5,199	$888	209	5,173	$893	-26	-0.5%	$5	0.6%
Leisure & Hospitality	147	2,529	$277	153	2,464	$274	-65	-2.6%	($3)	-1.1%
Other Services	215	961	$417	234	1,031	$417	70	7.3%	$0	0.0%
Public Administration	41	1,720	$1,009	42	1,732	$948	12	0.7%	($61)	-6.0%
CENTRAL MINNESOTA										
Total, All Industries	16,696	272,560	$816	17,340	276,113	$809	3,553	1.3%	($7)	-0.9%
Natural Resources & Mining	466	4,946	$694	473	5,066	$680	120	2.4%	($14)	-2.0%
Construction	2,529	19,234	$1,189	2,625	20,167	$1,176	933	4.9%	($13)	-1.1%
Manufacturing	1,160	41,781	$996	1,178	42,245	$983	464	1.1%	($13)	-1.3%
Trade, Transportation, Utilities	3,715	57,382	$710	3,797	57,262	$699	(120)	-0.2%	($11)	-1.5%
Information	207	3,206	$899	226	3,274	$884	68	2.1%	($15)	-1.7%
Financial Activities	1,332	9,154	$928	1,392	9,349	$935	195	2.1%	$7	0.8%
Professional & Business Services	1,781	18,092	$859	1,862	18,469	$865	377	2.1%	$6	0.7%
Education & Health Services	1,794	69,117	$891	1,906	69,933	$879	816	1.2%	($12)	-1.3%
Leisure & Hospitality	1,521	28,433	$314	1,581	28,866	$310	433	1.5%	($4)	-1.3%
Other Services	1,722	8,212	$475	1,825	8,241	$479	29	0.4%	$4	0.8%
Public Administration	469	13,000	$954	475	13,238	$951	238	1.8%	($3)	-0.3%

Sources: Minnesota Department of Employment and Economic Development; Maxfield Research & Consulting, LLC

Commuting Patterns

Proximity to employment is often a primary consideration when choosing where to live and shop, particularly for younger and lower income households since transportation costs often account for a greater proportion of their budgets. Additionally, people working in the Market Area who do not reside there provide a potential supplemental market for retail business establishments in the area. Table 10 highlights the commuting patterns of workers in Big Lake based on data from the U.S. Census Bureau Longitudinal Employer-Household Dynamics (LEHD) program for 2015, the most recent data available.

- As the table illustrates, about 82% of the workers employed in the City of Big Lake reside outside the City. The largest proportion of workers in Big Lake commutes from Monticello (5.3%), followed by Elk River (4.9%), and Becker (2.6%).

- Approximately 55% of the workers in Big Lake reside within ten miles of their place of employment while 21% travel from 10 to 24 miles. Roughly 15% of the workers commute from a distance of 25 to 50 miles while 9% come from more than 50 miles away.

TABLE 10
COMMUTING PATTERNS
CITY OF BIG LAKE
2015

Home Destination			Work Destination		
Place of Residence	**Count**	**Share**	**Place of Employment**	**Count**	**Share**
Big Lake city, MN	426	17.6%	Elk River city, MN	460	7.9%
Monticello city, MN	128	5.3%	Monticello city, MN	456	7.8%
Elk River city, MN	119	4.9%	Big Lake city, MN	426	7.3%
Becker city, MN	62	2.6%	Minneapolis city, MN	384	6.6%
St. Cloud city, MN	45	1.9%	St. Cloud city, MN	253	4.3%
Otsego city, MN	41	1.7%	Plymouth city, MN	216	3.7%
St. Michael city, MN	34	1.4%	Rogers city, MN	202	3.5%
Buffalo city, MN	32	1.3%	Maple Grove city, MN	199	3.4%
Ramsey city, MN	29	1.2%	Coon Rapids city, MN	165	2.8%
Minneapolis city, MN	22	0.9%	St. Paul city, MN	146	2.5%
All Other Locations	1,479	61.2%	All Other Locations	2,934	50.2%
Distance Traveled			**Distance Traveled**		
Total Jobs	2,417	100.0%	Total Jobs	5,841	100.0%
Less than 10 miles	1,336	55.3%	Less than 10 miles	1,599	27.4%
10 to 24 miles	516	21.3%	10 to 24 miles	1,601	27.4%
25 to 50 miles	354	14.6%	25 to 50 miles	2,327	39.8%
Greater than 50 miles	211	8.7%	Greater than 50 miles	314	5.4%

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 & Consulting, LLC

- Roughly 8% of the workers living in Big Lake commute to Elk River for employment, while 8% commute to Monticello and 7% remain in the City. Approximately 7% of Big Lake's workforce commute into Minneapolis and 4% commute to St. Cloud.

- Roughly 27% of resident workers in Big Lake travel less than ten miles for their jobs, while 27% have a commute distance from 10 to 24 miles. Approximately 40% commute between 25 and 50 miles while 5% commute more than 50 miles for employment.

Table 11 provides a summary of the inflow and outflow characteristics of the workers in Big Lake. Outflow reflects the number of workers living in the City but employed outside Big Lake, while inflow measures the workers that are employed in the City but live outside the City. Interior flow reflects the number of workers that live and work in Big Lake.

- As the table shows, Big Lake is an exporter of workers as a significantly higher number of residents leave the area for employment than nonresidents commute into the area. Roughly 1,991 workers come into the area for employment (inflow) while 5,415 residents leave the area (outflow) and 426 both live and work in the City (interior flow).

- Roughly 82% of the jobs in Big Lake are filled by workers commuting into the City for employment.

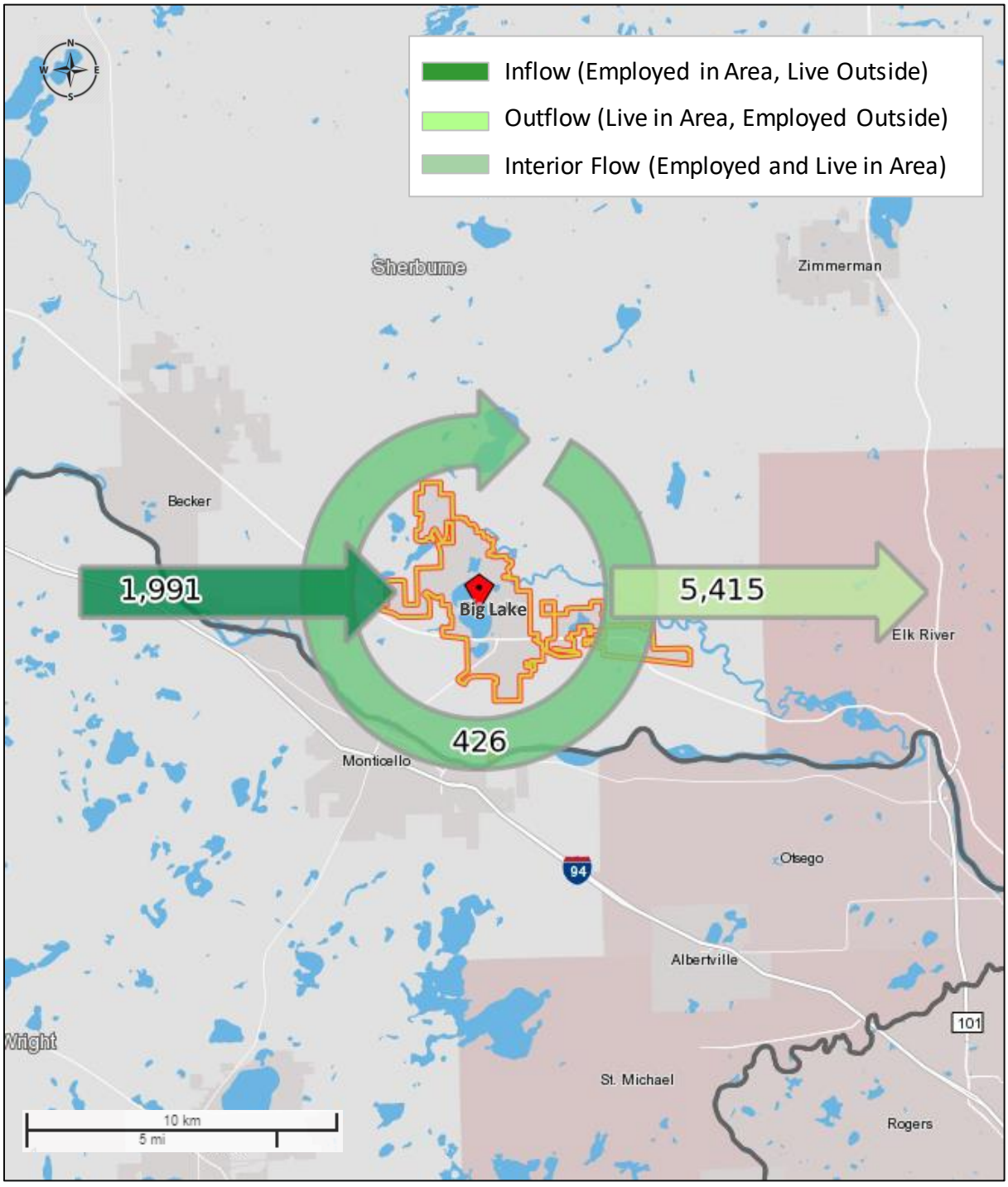
TABLE 11
COMMUTING INFLOW/OUTFLOW CHARACTERISTICS
CITY OF BIG LAKE
2015

	Outflow		Inflow		Interior Flow	
Big Lake	**5,415**	**100.0%**	**1,991**	**100.0%**	**426**	**100.0%**
By Age						
Workers Aged 29 or younger	1,209	22.3%	572	28.7%	134	31.5%
Workers Aged 30 to 54	3,241	59.9%	1,059	53.2%	213	50.0%
Workers Aged 55 or older	965	17.8%	360	18.1%	79	18.5%
By Monthly Wage						
Workers Earning $1,250 per month or less	1,179	21.8%	670	33.7%	221	51.9%
Workers Earning $1,251 to $3,333 per month	1,424	26.3%	551	27.7%	109	25.6%
Workers Earning More than $3,333 per month	2,812	51.9%	770	38.7%	96	22.5%
By Industry						
"Goods Producing"	1,311	24.2%	483	24.3%	50	11.7%
"Trade, Transportation, and Utilities"	1,214	22.4%	329	16.5%	84	19.7%
"All Other Services"*	2,890	53.4%	1,179	59.2%	292	68.5%

*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 & Consulting, LLC

City of Big Lake, Minnesota
Commuting Inflow/Outflow



Types of Retail Goods and Shopping Centers

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. 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.

According to the International Council of Shopping Centers (ICSC), general-purpose retail shopping centers can generally be classified into five major categories, as described below.

Strip/Convenience: The smallest shopping center category, at less than 30,000 square feet. Strip centers are generally an attached row of stores with on-site parking typically located in front of the stores, and have a trade area of less than one mile.

Neighborhood Center: Neighborhood centers are usually anchored by a grocery store or a drug store and have a draw area of one to three miles. This type of center fulfills the day-to-day needs of the surrounding neighborhood, is located at major street intersections, and is typically between 30,000 and 125,000 square feet.

Community Center: Community Centers generally range in size from 125,000 to 400,000 square feet and have at least two anchor tenants which may include a general merchandise discount 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. Community centers typically have a trade area of three to six miles.

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 are generally 400,000 to 800,000 square feet in size and draw customers from a broad geographical area (i.e. five to 15 miles).

Super-Regional Center: Similar to a regional center, but larger in size (over 800,000 square feet) and offer a greater variety and number of goods and services. The trade area for a super-regional center is also larger, generally five to 25 miles.

There are also other specialized-purpose shopping centers, including lifestyle centers, factory outlets, festival/theme centers, and Central Business District retail. Central Business District retail offerings are typically located on skyways or street fronts and are often smaller than 20,000 square feet due to the smaller size and scope of the market.

Visibility and access are primary considerations for retailers seeking a location. 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.

The following figure summarizes the various types of retail shopping centers, typical size ranges, and typical trade area sizes.

Center Type	Size Range (Sq. Ft.)	Trade Area Size
Community	125,000 to 400,000	3 to 6 miles
Neighborhood	30,000 to 125,000	1 to 3 miles
Regional	400,000 to 800,000	5 to 15 miles
Super-Regional	800,000 or larger	5 to 25 miles
Strip/Convenience	Less than 30,000	Less than 1 mile

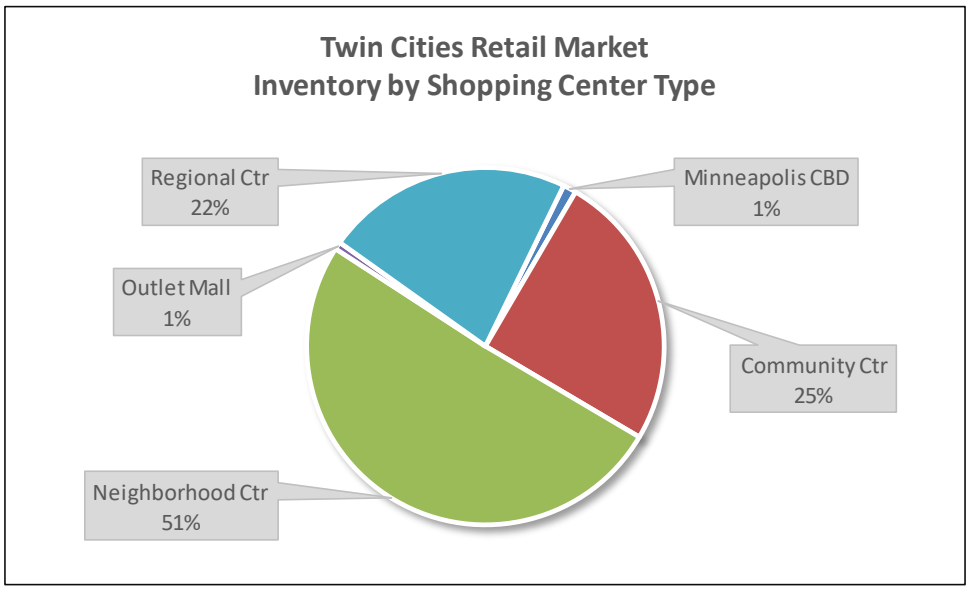
Source: International Council of Shopping Centers

Twin Cities Retail Market Conditions

Maxfield Research analyzed secondary data regarding retail market trends for the Twin Cities Metro Area, including total rentable area, vacancy rates, absorption, and lease rates. This information is useful in assessing the potential to develop retail uses in the City of Big Lake as the overall health of the local retail market will influence the development potential in Big Lake.

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. Data is provided by Colliers International for the fourth quarters of 2016 and 2017, the most recent information available. Maxfield Research also referenced market information provided by Cushman & Wakefield for this analysis.

- Colliers International is tracking 80.4 million square feet of retail space in the Twin Cities Metro Area. As depicted in the following graph, neighborhood center space comprises the greatest proportion of retail space in the Metro Area with 40.8 million square feet (51% of the total).



- Community centers represent 25% of the Twin Cities retail inventory (20.2 million square feet), while roughly 22% of the retail space is situated in regional shopping centers (18.0 million square feet). Minneapolis Central Business District (961,000 square feet) and outlet malls (545,000 square feet) each represent less than 2% of the supply of retail space in the Twin Cities.

- As of the fourth quarter of 2017, there were 4.5 million square feet of retail space vacant in the Twin Cities, representing a vacancy rate of 5.5%, down -0.2% from 5.7% in the fourth quarter of 2016.

- In the Twin Cities, retail vacancy was highest in the Minneapolis Central Business District (10.5%), followed by neighborhood centers (7.0%). Community centers were 4.8% vacant and regional centers had a 3.0% vacancy rate while outlet malls were essentially fully-occupied.

TABLE 12
RETAIL MARKET STATISTICS
TWIN CITIES
2016 to 2017

2017

Submarket/ Shopping Center	Total Rentable SF	Direct Vacant SF	Vacancy Rate	YTD Absorption
Minneapolis CBD	**960,984**	**100,540**	**10.5%**	**75,473**
Northeast	**14,333,018**	**735,579**	**5.1%**	**-20,353**
Northwest	**23,569,574**	**1,403,079**	**6.0%**	**-176,351**
Community Ctr	*6,264,571*	*337,654*	*5.4%*	*34,072*
Neighorhood Ctr	*13,047,889*	*883,734*	*6.8%*	*-120,373*
Outlet Mall	*430,000*	*0*	*0.0%*	*0*
Regional Ctr	*3,827,114*	*181,691*	*4.7%*	*-90,050*
Southeast	**22,211,104**	**1,275,327**	**5.7%**	**113,889**
Southwest	**19,365,852**	**930,858**	**4.8%**	**-26,092**
Total Market	**80,440,532**	**4,445,383**	**5.5%**	**-33,434**
Community Ctr	*20,171,194*	*961,587*	*4.8%*	*118,988*
Neighorhood Ctr	*40,769,581*	*2,847,237*	*7.0%*	*-39,353*
Outlet Mall	*544,701*	*4,968*	*0.9%*	*-4,968*
Regional Ctr	*17,994,072*	*531,051*	*3.0%*	*-183,574*

2016

Submarket/ Shopping Center	Total Rentable SF	Direct Vacant SF	Vacancy Rate	YTD Absorption
Minneapolis CBD	**980,041**	**168,526**	**17.2%**	**-50,039**
Northeast	**12,159,836**	**550,674**	**4.5%**	**-98,615**
Northwest	**19,410,857**	**1,069,911**	**5.5%**	**196,100**
Community Ctr	*5,707,514*	*379,901*	*6.7%*	*63,313*
Neighorhood Ctr	*9,372,974*	*629,954*	*6.7%*	*99,681*
Outlet Mall	*430,000*	*0*	*0.0%*	*0*
Regional Ctr	*3,900,369*	*60,056*	*1.5%*	*33,106*
Southeast	**18,337,266**	**1,145,123**	**6.2%**	**211,744**
Southwest	**16,176,914**	**892,510**	**5.5%**	**-7,311**
Total Market	**67,064,914**	**3,826,744**	**5.7%**	**251,879**
Community Ctr	*18,082,571*	*998,667*	*5.5%*	*282,726*
Neighorhood Ctr	*28,398,975*	*2,129,813*	*7.5%*	*203,389*
Outlet Mall	*839,000*	*0*	*0.0%*	*0*
Regional Ctr	*18,764,327*	*529,738*	*2.8%*	*-184,197*

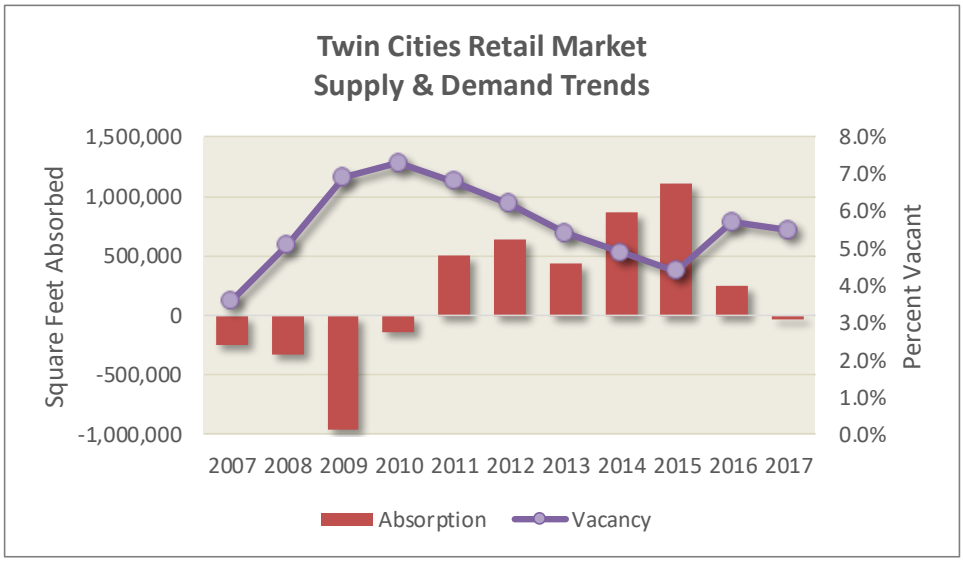
Sources: Colliers International; Maxfield Research & Consulting, LLC

- Absorption is the primary measure of leasing demand in the commercial real estate industry. In 2017, the retail market experienced roughly -33,400 square feet of negative absorption. Negative absorption, which occurs when the amount of physically occupied space in a market is reduced from one time-period to the next, suggests weak overall demand.

- Retailer demand was highest for community center space in the Twin Cities, which experienced nearly 119,000 square feet of absorption during 2017. Neighborhood centers experienced -39,000 square feet of negative absorption, while regional centers experienced roughly -184,000 square feet of negative absorption.

- Big Lake is located adjacent to the Northwest submarket as defined by Colliers International. Within the submarket, roughly 13.0 million square feet is in neighborhood centers, 6.8% of which is vacant (884,000 square feet). Neighborhood centers in the Northwest submarket experienced approximately -120,000 square feet of negative absorption in 2017.

- As illustrated in the following graph, the retail market recovered from high vacancy rates and weak demand during the Recession and moved into the expansion phase of the real estate cycle. Vacancy rates declined steadily between 2010 and 2015, while demand and construction activity increased. However, since 2015, vacancy rates have been increasing while demand (as measured by absorption) has contracted.



- Market conditions had been very competitive and retailers were faced with a shortage of available quality space and rising rental rates. However, the amount of available space increased sharply in 2016 and 2017 due to multiple store closings. Examples of these closings include Sports Authority, Macy's, Kmart, and Hancock Fabrics. Vacant stores in well-located shopping centers are being back-filled quickly, but other locations have been slower to fill.

- Much of the leasing activity is occurring in small-shop space, predominantly driven by fast-casual food concepts, fitness centers, and coffee concepts. Additionally, grocery stores have been actively expanding or seeking shopping center space, including; Hy-Vee, Fresh Thyme, Trader Joe's, Aldi, and Whole Foods. Discount retailers such as Hobby Lobby, Savers, and Total Wine are also seeking space.

- Average retail rental rates held steady over the year at $27.80 per square foot net. However, new centers in prime locations (e.g. France Avenue in Edina) are obtaining much higher rents in the $40 to $60 per square foot range, while centers in secondary locations generally have rental rates below $20 per square foot. These rents are pricing some retailers out of the prime markets and forcing them to seek space in secondary locations. However, it appears that premium rent growth is flattening.

TABLE 13
QUOTED AVERAGE NET RETAIL RENTAL RATES
TWIN CITIES METRO AREA
2013 - 2017

Shopping Center Type	2017	2016	2015	2014	2013
Minneapolis CBD	$24.65	$24.65	$24.14	$24.19	$27.65
Community Center	$19.09	$19.05	$18.92	$18.64	$18.66
Neighborhood Center	$16.48	$16.37	$16.04	$15.87	$15.72
Outlet Mall	$33.74	$33.74	$33.74	$33.74	--
Regional Center	$62.99	$62.99	$62.99	$62.68	$63.06
Total Market	$27.80	$27.81	$27.48	$27.55	$27.60

Sources: Cushman & Wakefield; Maxfield Research & Consulting, LLC

- The retail industry is experiencing a period of uncertainty, as consumer spending on retail goods and services is strong, yet many well-known retailers have filed for bankruptcy or closed stores recently. Several trends have contributed to the current state of the market, but one of the most significant trends impacting store-based retailers is the growth of online and mobile retailing.

- Consumers have changed their spending habits since the Recession, shifting from material goods (i.e. clothing) to experiences (i.e. travel and dining out). Sales at restaurants have grown twice as fast as all other retail spending since 2005. In 2016, for the first time ever, spending was higher at bars and restaurants than at grocery stores in the United States.

- Moving forward, successful shopping mall owners will likely invest in the following: differentiating consumer offerings with a focus on experience and convenience; leveraging technology and omnichannel strategies; and, exploration of new formats. Shopping malls will likely not be able to compete with online shopping for convenience, but they can offer leisure, entertainment, and dining experiences. Additionally, mixed use developments that provide an integrated community where people can live, work, and shop are expected to gain in popularity.

Big Lake Retail Inventory

The following points summarize key findings about the inventory of retail space in Big Lake. The retail inventory data was collected by Maxfield Research from CoStar, a provider of information, analytics, and marketing services to the commercial real estate industry.

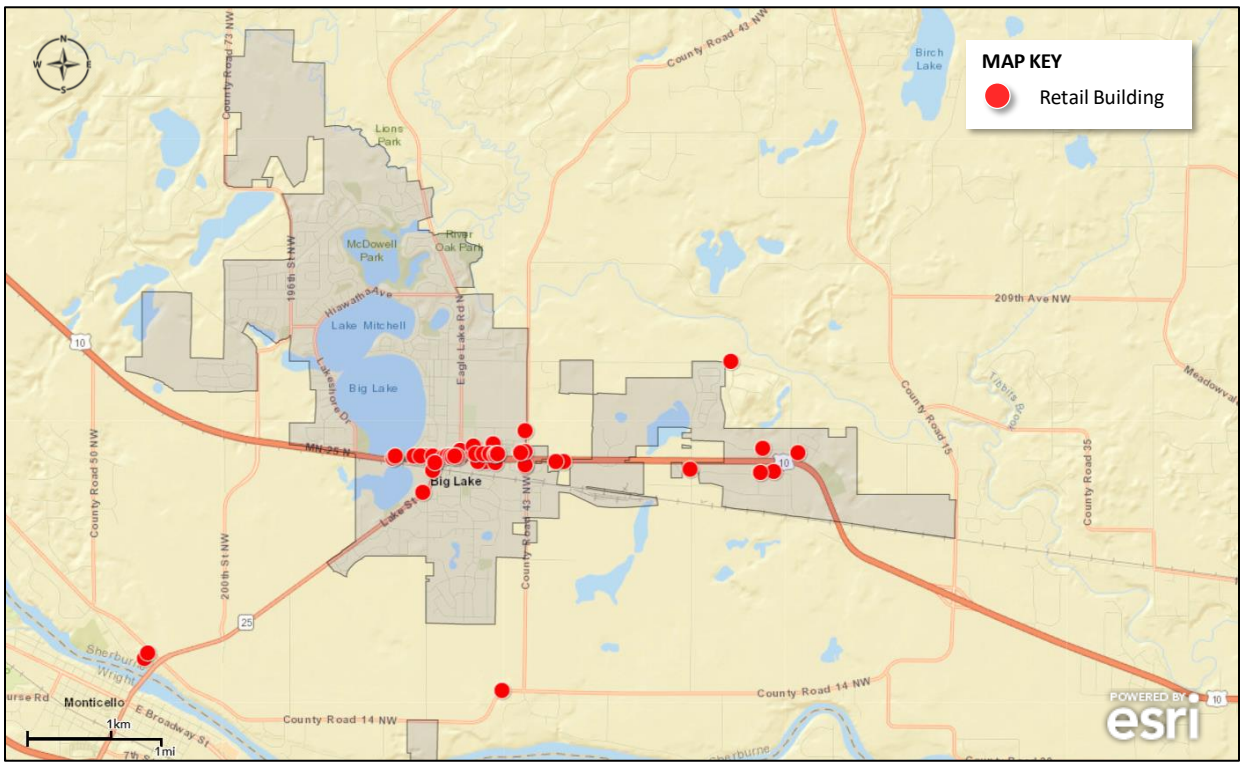
- We identified a total of 51 retail properties in Big Lake, totaling approximately 484,000 square feet. There is 5,526 square feet of retail space currently vacant, representing a 1.1% vacancy rate.

- The average rent among the surveyed properties in Big Lake is $13.76 NNN per square foot. The average retail building size is roughly 9,540 square feet, with the largest being a 68,000 square-foot Coborn's grocery store.

- Much of the retail development in Big Lake coincided with the surge in residential construction activity that occurred in the City during the early 2000s, as roughly 42% of the retail space in Big Lake (187,000 square feet) opened between 2000 and 2007. Approximately 40,600 square feet (9% of the inventory) has been delivered in the past ten years.

- As depicted in the following map, the retail properties located in the City of Big Lake are clustered along Highway 10, most notably near its intersection with Highway 25.

Retail Property Location Map

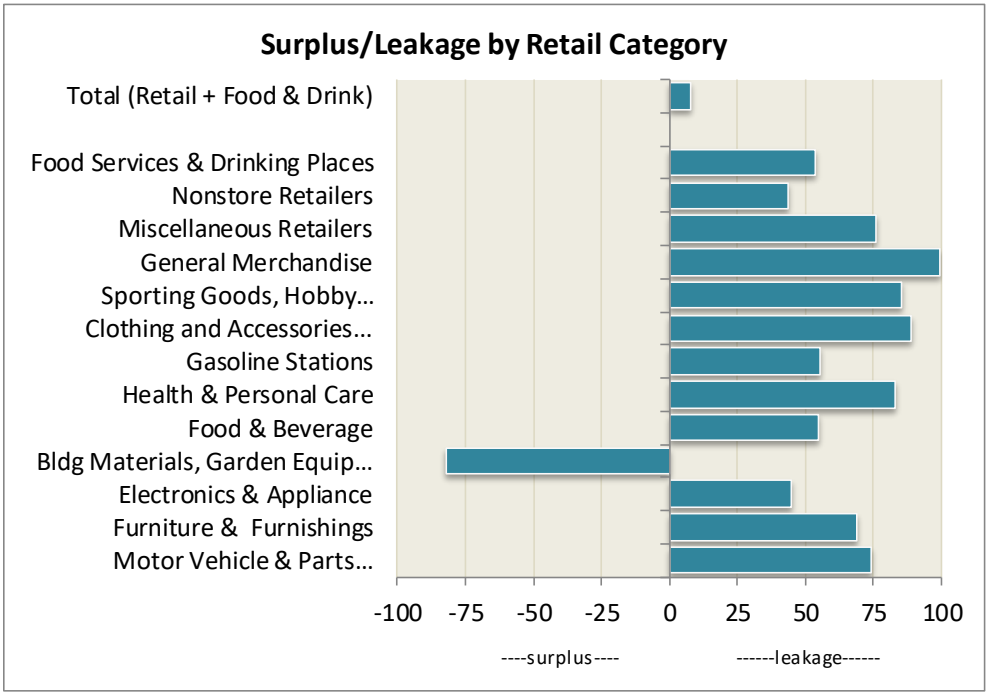


Retail Demand Potential and Leakage

Table 14 on the following page presents current retail sales and consumer expenditure data for the PMA. 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. Key points of the retail demand potential follow.

- There are 74 retail business establishments located in the PMA. These establishments generated roughly $276.5 million in sales in 2017, while retail expenditures totaled an estimated $323.7 million from PMA households. The result is a spending gap of $47.1 million and a leakage factor of 7.9 in the PMA.

- It appears that PMA residents are purchasing retail goods and services at establishments located outside the area, generating "leakage" of retail opportunity outside the Trade Area. As illustrated in the following graph, with the exception of building materials and supplies, all other major retail categories experienced leakage of retail sales during 2017 in the PMA.



- This data indicates that a variety of retailers considering Big Lake could potentially capture sales that are currently being transacted outside of the Trade Area, including neighborhood-oriented goods and services, such as gasoline stations, grocery stores, and health and personal care stores. Leakage was particularly high at restaurants ($21.6 million).

- New retail space in Big Lake will likely be able to attract commercial establishments serving both the expanding resident population as well as the daytime population in the area.

TABLE 14
RETAIL DEMAND POTENTIAL AND LEAKAGE
PRIMARY MARKET AREA
2017

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)	$323,660,908	$276,528,173	$47,132,735	7.9	74
Total Retail Trade (NAICS 44-45)	$291,773,771	$266,959,851	$24,813,920	4.4	56
Total Food & Drink (NAICS 722)	$31,887,137	$9,568,322	$22,318,815	53.8	18
EXPENDITURE TYPE					
Motor Vehicle & Parts Dealers	**$61,345,804**	**$9,072,049**	**$52,273,755**	**74.2**	**8**
Automobile Dealers	$49,043,746	$5,814,576	$43,229,170	78.8	2
Other Motor Vehicle Dealers	$7,021,997	$218,412	$6,803,585	94.0	1
Auto Parts, Accessories & Tire Stores	$5,280,061	$3,039,061	$2,241,000	26.9	5
Furniture & Home Furnishings Stores	**$9,491,010**	**$1,726,553**	**$7,764,457**	**69.2**	**4**
Furniture Stores	$5,612,223	$0	$5,612,223	100.0	0
Home Furnishings Stores	$3,878,787	$1,726,553	$2,152,234	38.4	4
Electronics & Appliance Stores	**$10,892,181**	**$4,175,416**	**$6,716,765**	**44.6**	**4**
Bldg Materials, Garden Equip. & Supply Stores	**$21,664,009**	**$222,851,417**	**($201,187,408)**	**(82.3)**	**8**
Bldg Material & Supplies Dealers	$19,715,884	$221,645,507	($201,929,623)	(83.7)	5
Lawn & Garden Equip & Supply Stores	$1,948,125	$1,205,910	$742,215	23.5	3
Food & Beverage Stores	**$45,174,450**	**$13,093,226**	**$32,081,224**	**55.1**	**5**
Grocery Stores	$37,349,549	$9,960,469	$27,389,080	57.9	2
Specialty Food Stores	$2,308,589	$696,570	$1,612,019	53.6	2
Beer, Wine & Liquor Stores	$5,516,312	$2,436,187	$3,080,125	38.7	1
Health & Personal Care Stores	**$19,908,623**	**$1,852,600**	**$18,056,023**	**83.0**	**1**
Gasoline Stations	**$31,903,864**	**$9,154,036**	**$22,749,828**	**55.4**	**6**
Clothing & Clothing Accessories Stores	**$15,562,860**	**$927,234**	**$14,635,626**	**88.8**	**2**
Clothing Stores	$10,603,770	$927,234	$9,676,536	83.9	2
Shoe Stores	$2,278,743	$0	$2,278,743	100.0	0
Jewelry, Luggage & Leather Goods Stores	$2,680,347	$0	$2,680,347	100.0	0
Sporting Goods, Hobby, Book & Music Stores	**$9,038,045**	**$718,287**	**$8,319,758**	**85.3**	**5**
Sporting Goods/Hobby/Musical Instr Stores	$7,884,854	$718,287	$7,166,567	83.3	5
Book, Periodical & Music Stores	$1,153,191	$0	$1,153,191	100.0	0
General Merchandise Stores	**$51,119,694**	**$79,708**	**$51,039,986**	**99.7**	**1**
Department Stores Excluding Leased Depts.	$38,391,600	$0	$38,391,600	100.0	0
Other General Merchandise Stores	$12,728,094	$79,708	$12,648,386	98.8	1
Miscellaneous Store Retailers	**$11,084,936**	**$1,514,781**	**$9,570,155**	**76.0**	**9**
Florists	$610,129	$91,907	$518,222	73.8	1
Office Supplies, Stationary & Gift Stores	$2,341,941	$47,801	$2,294,140	96.0	1
Used Merchandise Stores	$1,434,193	$814,396	$619,797	27.6	3
Other Miscellaneous Store Retailers	$6,698,673	$560,677	$6,137,996	84.6	4
Nonstore Retailers	**$4,588,295**	**$1,794,544**	**$2,793,751**	**43.8**	**3**
Electronic Shopping & Mail-Order Houses	$3,678,659	$1,794,544	$1,884,115	34.4	3
Vending Machine Operators	$211,136	$0	$211,136	100.0	0
Direct Selling Establishments	$698,500	$0	$698,500	100.0	0
Food Services & Drinking Places	**$31,887,137**	**$9,568,322**	**$22,318,815**	**53.8**	**18**
Special Food Services	$812,611	$337,930	$474,681	41.3	3
Drinking Places - Alcoholic Beverages	$1,838,835	$1,593,957	$244,878	7.1	3
Restaurants/Other Eating Places	$29,235,691	$7,636,435	$21,599,256	58.6	12

Note: All figures quoted in 2016 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 & Consulting, LLC

Retail Development Potential

Demand for additional retail space, measured in gross leasable space in square feet, is calculated in the table on the following page which combines demand information with supply to calculate the amount of retail space supportable in the PMA. Sources of data used in the calculations include Maxfield Research, ESRI, and the Urban Land Institute (sales per square foot).

The demand calculation begins with household growth projections combined with an estimate of the total expenditures for retail goods and services by Market 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 Big Lake will be generated by household and consumer expenditure growth in the PMA. The following points summarize the retail demand methodology.

- As of 2018, there are an estimated 7,552 households in the PMA. The household base is projected to grow by 368 households between 2018 and 2023.

- Based on a review of consumer expenditure patterns in the PMA, Trade Area households will spend an average of $26,311 on retail goods and services in 2018.

- Because of growth in the household base and accounting for inflation, as well as projected increases in household income, PMA residents are expected to increase their overall retail expenditures from an estimated $198.7 million in 2018 to $230.1 million in 2023. Projected increases in households and annual expenditures will result in growth in retail expenditures by Trade Area residents of roughly $31.4 million between 2018 and 2023.

- As of 2017, total leakage of retail expenditures (including food and drink) from the Trade Area was estimated to be at roughly 8%, indicating a loss of potential sales. Big Lake could potentially attract stores in a variety of neighborhood- and convenience-oriented retail categories, as leakage exists in most major retail categories in the PMA. Deducting leakage from total Trade Area expenditures results in purchasing power that will be retained in the Trade Area.

- Accounting for inflation, we anticipate that the average retail sales per square foot will increase from an estimated $301 in 2018 to $324 in 2023. 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 607,097 square feet of retail space in the PMA in 2018, increasing to about 656,509 square feet in 2023, for a net gain of 49,412 square feet from 2018 to 2023.

- We anticipate that 70% of the demand for retail goods and services will come from households in the PMA and the remaining 30% will come from sources other than Trade Area households. Some of these sources include employees working at businesses establishments in the area and daily traffic on the surrounding road network.

- Adding in demand generated by sources other than Trade Area households results in potential demand for an estimated 70,588 square feet of new retail space in the PMA between 2018 and 2023.

- Based on household growth trends and the distribution of existing retail space in the PMA, we estimate that the City of Big Lake could capture 85% of the total growth in retail demand in the PMA, resulting in demand for approximately 60,000 square feet of retail space in the City between 2018 and 2023.

- A retail development on the subject property would be able to capture a portion of the retail demand growth in the City.

TABLE 15
DEMAND FOR RETAIL SPACE
CITY OF BIG LAKE, MINNESOTA
2018 to 2023

		2018	2023
Trade Area Households		7,552	7,920
(times) Annual Household Expenditures[1]	x	$26,311	$29,049
(equals) Total Trade Area Expenditures	=	$198,700,672	$230,068,080
(plus) Approx. % Leakage Outside the Trade Area[2]	+	8%	8%
(equals) Leakage Outside of Trade Area	=	$15,697,353	$17,687,404
(equals) Total Purchasing Power		$183,003,319	$212,380,676
(divided by) Average sales per Sq. Ft.	/	$301	$324
(equals) Total Retail Space Demand (Sq. Ft.)	**=**	**607,097**	**656,509**
Growth in Retail Demand from PMA Households 2018 to 2023		**49,412**	
(plus) Demand from outside PMA (30%)[3]	+	21,176	
(equals) Potential Demand for Retail Space (Sq. Ft.) in PMA	**=**	**70,588**	
(times) % of Demand Growth Capturable in Big Lake	x	85%	
(equals) Retail space supportable in Big Lake (square feet)	**=**	**60,000**	

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

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

[3] An estimated 30% of the demand will be generated by households from outside the PMA.

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

Sources: ESRI; ULI; Metropolitan Council; Maxfield Research & Consulting, LLC

Summary and Conclusions

Due to factors such as accessibility, traffic volumes, and population density, the most likely retail uses to be drawn to Big Lake will be convenience- and neighborhood-oriented retailers, specialty stores, and personal and professional service firms offering services to local households. We find that there will be sufficient growth in demand to support additional retail space on the subject property and elsewhere in Big Lake between 2018 and 2023. Additionally, based on a review of retail space listed for lease in CoStar, there is only 5,500 square feet of space available in Big Lake which equates to a 1.1% vacancy rate. This information suggests that there is pent-up demand for retail space in Big Lake.

As of the fourth quarter of 2017, there were 4.5 million square feet of retail space vacant in the Twin Cities, representing a vacancy rate of 5.5%, down -0.2% from 5.7% in the fourth quarter of 2016. The retail market recovered from high vacancy rates and weak demand during the Recession and moved into the expansion phase of the real estate cycle. Vacancy rates declined steadily between 2010 and 2015, while demand and construction activity increased. However, since 2015, vacancy rates have increased while demand (as measured by absorption) has contracted.

The amount of available space increased sharply in 2016 and 2017 due to multiple store closings. Examples of these closings include Sports Authority, Macy's, Kmart, and Hancock Fabrics. Vacant stores in well-located shopping centers are being back-filled quickly, but other locations have been slower to fill. Much of the leasing activity is occurring in small-shop space, predominantly driven by fast-casual food concepts, fitness centers, and coffee concepts. Additionally, grocery stores have been actively expanding or seeking shopping center space and discount retailers such as Hobby Lobby, Savers, and Total Wine are also seeking space.

The retail industry is experiencing a period of uncertainty, as consumer spending on retail goods and services is strong, yet many well-known retailers have filed for bankruptcy or shuttered stores recently. Several trends have contributed to the current state of the market, but one of the most significant trends impacting store-based retailers is the growth of online and mobile retailing. Moving forward, successful shopping mall owners will likely explore new formats and provide offerings that focus on experience and convenience, while retailers will shift toward leveraging technology and omnichannel strategies to increase sales. Additionally, mixed use developments that provide an integrated community where people can live, work, and shop are expected to gain in popularity.

The most likely retail uses to be drawn to Big Lake would be neighborhood and convenience-oriented goods and services where there is currently leakage of sales opportunity. Examples include restaurants, coffee shops, health and personal care stores, boutique fitness centers, and gasoline stores. Retailers could capture potential sales from several sources, including; area households, employees working at businesses establishments in the area, and daily traffic on the surrounding road network.

We anticipate that new construction retail space would rent for approximately $20.00 to $25.00 per square foot, on average, in 2017, which is substantially higher than the average asking lease rate of $12.88 NNN for existing neighborhood center space in the Sherburne County Submarket (CoStar). National retailers would likely be able and willing to pay the higher rate for new construction retail space, but some locally-owned retailers may have a difficult time supporting new construction rents.

Commercial development in Big lake would most likely attract convenience- and neighborhood-oriented retailers, specialty stores, and personal and professional service firms offering services to local households that would consider locating in retail space. Table 16 provides a summary of these types of business establishments along with typical space sizes. We suggest that new commercial retail space in Big Lake be marketed to these types of tenants.

TABLE 16
NEIGHBORHOOD- AND CONVENIENCE-ORIENTED BUSINESS ESTABLISHMENTS
POTENTIAL COMMERCIAL TENANT TYPES IN BIG LAKE

Retail Uses	Median Size Range (Sq. Ft.)	Personal/Professional Service Uses	Median Size Range (Sq. Ft.)
Variety Store	1,900 - 8,900	Cosmetics/Beauty Supplies	1,600 - 2,100
Dollar Store	2,900 - 8,000	Dry Cleaner/Laundry	1,500 - 2,000
Specialty Food	2,700 - 2,800	Hair Salon	1,000 - 1,250
Bakery	1,500 - 1,500	Nail/Tanning/Day Spa	1,200 - 3,500
Health Food	1,200 - 1,800	Photographer/Film Processing	1,300 - 1,700
Convenience Market	1,000 - 1,200	Photocopy	1,400 - 1,400
Restaurant (without liquor)	2,600 - 4,000	Tailor	900 - 900
Restaurant (with liquor)	2,800 - 5,000	Mailing/Packaging	1,200 - 1,350
Ice Cream/Sandwich Shop	1,200 - 2,000	Learning Center/College	2,400 - 2,400
Hamburger/Pizza/Fast Food	1,400 - 2,400	Employment Agency	1,500 - 1,600
Clothing/Shoes/Footwear	1,700 - 4,500	Accounting and Finance	1,400 - 1,600
Home Accessories	8,000 - 9,000	Bank	2,500 - 3,200
Electronics/Telephones	1,200 - 2,400	Insurance	1,000 - 1,200
Hardware	10,000 - 10,100	Real Estate	1,700 - 2,400
Automotive	6,000 - 7,000	Optician/Optometrist	1,500 - 2,000
Sporting Goods	4,250 - 8,500	Medical and Dental	1,500 - 1,600
Hobby/Arts/Crafts	4,500 - 9,200	Veterinary	1,600 - 2,000
Gifts/Books/Games/Pets	1,400 - 4,000	Music Studio/Dance	2,200 - 2,300
Drugstore/Pharmacy	9,600 - 10,000	Health Club	1,700 - 3,600

Sources: Urban Land Institute/International Council of Shopping Centers; Maxfield Research & Consulting, LLC

This memorandum presents an initial market potential assessment, which is intended to broadly assess the demand for commercial retail development in Big Lake. A full market potential analysis would provide a site analysis, comprehensive market information, absorption projections, and detailed recommendations.