An Analysis of the Market Potential for Redevelopment within the Highway 7 Corridor in Hutchinson, Minnesota

Prepared for:

City of Hutchinson
Hutchinson, Minnesota

June 2007

Maxfield Research Inc.
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June 27, 2007

Ms. Rebecca Bowers
Director of Building, Planning, & Zoning
111 Hassan Street SE
Hutchinson, MN 55350

Dear Mr. Bowers:

Attached the study entitled "*An Analysis of the Market Potential for Redevelopment within the Highway 7 Corridor in Hutchinson, Minnesota*." Our research includes a review of the demographic characteristics and growth trends in the Hutchinson area, and of the existing supply of and market conditions for housing, retail, and office space.

Based on this analysis, we find that the Highway 7 Corridor can support various land uses, including retail, office, and housing products. Detailed findings and recommendations for each land use can be found in the *Conclusions and Recommendations* section of the report.

We have enjoyed performing this study and are available if you need additional information.

Sincerely,

MAXFIELD RESEARCH INC.

Mary C. Bujold
President

Matt Mullins
Senior Research Analyst

Attachment

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Introduction

Maxfield Research Inc. was engaged by Landform (on behalf of the City of Hutchinson) to conduct an analysis of the market potential for alternative real estate uses within the Highway 7 Corridor in Hutchinson, Minnesota. Our research includes an analysis of the demographic characteristics and growth trends in the Hutchinson area, and of the existing supply of and market conditions for housing, retail, and office. Based on this data, we quantify demand for additional housing units, retail space, and office space for the Highway 7 Corridor. Our demand calculations and recommendations are intended to serve as a guide in future land use decisions for future development along the Highway 7 Corridor.

Demand Summary

The following table summarizes our total demand calculations for the amount of each use that could be captured in the Highway 7 Corridor. Detailed recommendations, including timing and appropriate lease rates and pricing are found in the *Conclusions and Recommendations* section near the end of the report.

SUMMARY OF DEMAND
HIGHWAY 7 CORRIDOR
JUNE 2007

Type of Use	**2007 to 2015**
Housing (Units)	
General-Occupancy	
For-Sale Multifamly Units	30 to 40
Rental Units	50 to 60
Total Housing Supportable	**80 to 100**
	2007 to 2015
Total Office Supportable (Sq. Ft.)	**20,000**
	2006 to 2020
Total Retail Supportable (Sq. Ft.)	**100,000**

Source: Maxfield Research Inc.

Housing Recommendations

We find demand for a variety of housing product for various household types. Although new single-family homes and detached townhomes continue to be in high demand in Hutchinson, we do not recommend these product types due to the density needed for the sites located within the Highway 7 Corridor. For this reason, we recommend a mix of higher-density housing that can maximize returns.

In the short-term, we believe general-occupancy apartments and/or for-sale townhomes will be the highest demand. Although we found a moderate amount of senior housing demand, we do not recommend a new senior housing product at this time, as there are not enough supportable units for a project to be financially feasible. We do not recommend the development of a for-sale condominium at this time.

Retail Recommendations

Our demand calculations found that the Highway 7 Corridor could support about 100,000 square feet of additional retail space through 2020. However, since Highway 7 is mostly developed throughout Hutchinson, it will be challenging to accumulate land sufficient to create a critical mass of retail. Most larger and national tenant retailers will prefer to locate near the Hutchinson Mall and other big-box retailers. As a result, we believe most retail will be smaller retail centers and stand-alone buildings. The greatest demand for retail is for stores serving the local population with goods and services they purchase frequently; such as convenience goods and personal services.

We believe net lease rates averaging $14 to $18 per square foot will be required to pay for the cost of redevelopment, especially land acquisition. The lower end of this range will primarily be for space with less visibility, while the higher end will be for space with the best access and visibility. Most potential neighborhood tenants will likely seek space elsewhere if lease rates exceed this level. We estimate that most neighborhood tenants would be national chains as local business owners would not likely be able to afford these rents. For this reason, we envision a retail concentration of national tenants or high-quality local/regional chains.

Office Recommendations

Our calculations show that the Highway 7 Corridor can support 20,000 square feet of office space through 2015. Most potential tenants will be smaller professional service firms such as medical offices, accounting and personal finance offices, etc. They will seek smaller spaces, generally less than 5,000 square feet. Most office tenants will seek space in either traditional leased office space or retail space.

New office space in the Highway 7 Corridor should capture net lease rates priced from $12.00 to $14.00 per square foot.

Highway 7 Corridor Overview

The Highway 7 Corridor Area Study ("Highway 7 Corridor") in Hutchinson, Minnesota encompasses properties in the general vicinity of Highway 7 through the City of Hutchinson (See map on the following page). Hutchinson is a community of about 14,000 persons in West Central Minnesota served by Highways 7, 15, and 22. Hutchinson is approximately 50 miles west of the Twin Cities Metro Area via Highway 7 and is about 50 miles south of St. Cloud via Highway 15.

Highway 7 through Hutchinson is currently undergoing expansion to four-lanes and major road improvements have recently been completed at the Highway 7 and Highway 15 intersection. The State of Minnesota purchased and vacated a number of properties at this key intersection for expansion of Highway 7, resulting in vacant land at this time which is positioned for new development. Previous road improvements have been completed east of Highway 15 through Hutchinson, while current road improvements on Highway 7 west of Highway 15 are ongoing at this time.

Existing Business Mix

Table 1 shows the mix of businesses located within the Highway 7 Corridor through Hutchinson. The Table categorizes the businesses based on the proximity to Highway 15. Maxfield Research Inc. inventoried just over 100 commercial businesses located in the corridor.

A number of the businesses located in the corridor are local businesses. That is, they are independently owned, versus national chains or franchises. In comparison, most of the businesses located on Highway 15 in the south end of Hutchinson are national chains or franchises, such as Target, Wal-Mart, Applebees, Pizza Hut, etc. Auto-related establishments comprise the largest majority of businesses in the Highway 7 Corridor, accounting for approximately 20% of businesses.

The retail businesses along Highway 7 contains a mix of "convenience businesses" – or neighborhood retailers – that serve the surrounding neighborhoods with items that are purchased on a daily or weekly basis, and "specialty businesses" which carry items that are purchased less often. Specialty businesses draw customers from a larger area than neighborhood businesses and are spaced farther apart (there are fewer such businesses). Neighborhood retailers include uses such as gas stations, automotive repair and parts, restaurants, etc. Specialty retailers include businesses such as furniture stores, electronics, home improvement stores, etc.

Service businesses are classified as either Business/Professional or Personal. Business and professional services include real estate offices, financial services, insurance agents, etc., and typically occupy office space. Personal services include beauty/barber shops, medical offices, chiropractor, and specialty services. Examples of specialty services along Highway 7 include dog grooming, karate studio, etc. Other prominent uses in the corridor include hospitality and manufacturing. There are five hotel properties, all located with Highway 7 frontage. The two largest manufactures (Hutchinson Manufacturing and Stearnswood) are located just south of Highway 7 along Les Kouba Parkway.

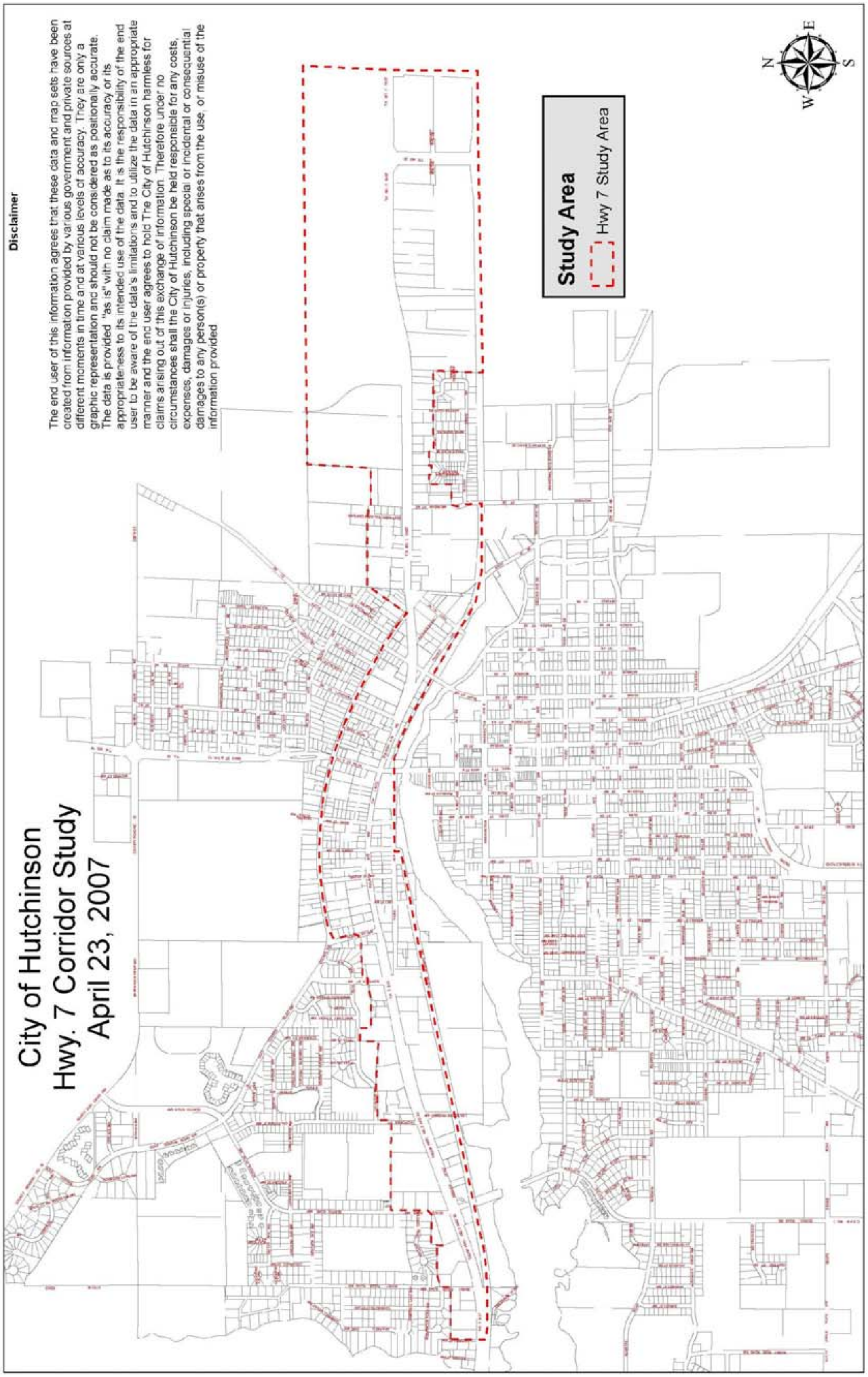
City of Hutchinson
Hwy. 7 Corridor Study
April 23, 2007
Disclaimer
The end user of this information agrees that these data and map sets have been created from information provided by various government and private sources at different moments in time and at various levels of accuracy. They are only a graphic representation and should not be considered as positionally accurate. The data is provided "as is" with no claim made as to its accuracy or its appropriateness to its intended use of the data. It is the responsibility of the end user to be aware of the data's limitations and to utilize the data in an appropriate manner and the end user agrees to hold The City of Hutchinson harmless for claims arising out of this exchange of information. Therefore under no circumstances shall the City of Hutchinson be held responsible for any costs, expenses, damages or injuries, including special or incidental or consequential damages to any person(s) or property that arises from the use, or misuse of the information provided
Study Area
Hwy 7 Study Area
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TABLE 1
HIGHWAY 7 COMMERCIAL BUSINESSES
HUTCHINSON CORRIDOR STUDY
MAY 2007

Highway 7 West of Highway 15		Highway 7 East of Highway 15	
Business Name	**Business Type/Real Estate Use**	**Business Name**	**Business Type**
Excelsior Modular Homes	Modular Home Sales	Hutchinson Utlity	Utility Plant
Crow River Press	Manufacturing	Standard Printing & Office Supplies	Printing & Office Supplies
Vacant Land	Commercial Land	Navigator Financial Group	Office
King's Inn	Motel	Erickson Auto Sales	Auto Sales
Cedar Crest Estates	Senior Housing	Frank Motors	Auto Sales
McLeod County Art Museum	Museum	Napa Auto Parts	Auto Parts
Super America	Gas Station	Sorenson's Sales & Rentals	Outside Storage
Burger King	Fast Food	Economy Inn	Hotel
River View Storage	Storage Facility	Culligan	Water softener sales
Wendy's (Closed)	Fast Food	Remax Real Estate	Office (Real Estate)
Hutchinson Alamo Club	Gun Club	Coldwell Banker Burnet	Office (Real Estate)
Hutch Bowl	Entertainment Retail	Jeff's Auto Repair	Auto Service
Flyers Night Club	Bar	North Country Sales	Auto Sales
Jay Maylone Motors	Auto Sales & Service	Vacant	Vacant Hutchinson Nursery
Forbes Auto Center	Auto Repair & Parts	Marshall Concrete	Manufacturing
AKI	Manufacturing	Hutchinson Motessori School	School
Home Source Electronics	Retail	Valley Auto Sales	Auto Sales & Service
Cenex	Gas Station	Thrivent Financial for Lutherans	Office
Burrito	Fast Food	Olson Locksmithing	Office Warehouse
7-West Wash & Dry	Laundry Mat	California Auto Body	Auto Service
Viking Sign & Graphics	Sign Shop	MPI Chopper	Auto Service
Animal Medical Center Inc.	Vetrinarian	Car Quest	Auto Parts
Auto Spa	Auto Detailing	Casey's General Store	Gas Station
Adult Training & Rehabilitation Ctr.	Professional Service	Glass	Glass
Maytag Laundry, Tanning, & Car Wash	Laundry Mat with Car Wash	Hutchinson Plumbing and Heating	Plumbing
Floor & Ceiling Store	Home-Improvement/Warehouse	Auto Parts	Auto Parts
Edward Jones Inc.	Financial Services (Office)	Country Kitchen	Restaurant
Barbarettes	Hair Care	Budget Motel	Hotel
MediaCom	Office	Plumbing & Heating by Craig	Plumbing
Northwest Martial Arts	Karate Studio	Dairy Farm	Dairy Farm
Employment Plus	Office	Elks Lodge	Restaurant
Best Western Victorian Inn	Hotel	Heinz Floor Coverings	Retail
MNDOT Storage (for Hwy. 7construction)	Temporary Storage	Fastlub	Auto Service
Emans Auto Sales	Auto Sales & Service	Slumberland Furniture	Retail
Harmon Glass	Glass Service	AmericInn	Hotel
E & T Contracting	Construction	Garage Door Service	Garage Door Repair
B. Christianson Construction	Res. & Commercial Construction	Carr Flowers	Retail
J & R	Well Drilling	Phoenix Solutions	Manufacturing
Why USA Real Estate	Office	Nordic Companies	
Hutchinson Auto Express	Auto Service	Quade Electric	Electricians
Good Year	Auto Service	Treasure Chest	Flea Market
Proposed Bank	Bank	Ag Systems	Agricultural Equipment
Hutchinson Manufacturing	Manufacturing	Case Equipment	Agricultural Equipment
Modern Mazda	Auto Sales & Service	Farm	Farm
BusinessWare Solutions	Office		
Buffalo Creek Gourment Seasoning	Office		
Tri-County Water Conditioning	Water Softener Sales		
New Dimension Plating	Manufacturing		
Storage	Storage		
Crow River Vet Hospital	Vetrinarian		
StearnsWood	Manufacturing		
Vacant Storage Building	Storage		
Subway	Fast Food		
Cenex	Agricultural Sales		
Right Way Building	Home Builder		
Sheer	Dog Grooming		
Taco Johns	Fast Food		
Casper Chiropractic Center	Office		
Carwash	Carwash		
Hardee's	Fast Food		
SW MN Housing Partnership	Office		

Source: Maxfield Research

In addition to commercial uses, there are various housing types located within the Highway 7 Corridor. There are two multifamily housing developments located on High Street NE, while single-family residential homes are scattered mostly north of Highway 7 and south of Fifth Avenue.

Traffic Volumes

Traffic counts are used as benchmarks by many retailers and business owners who rely heavily on drive-by traffic and the visibility of motorists as a key factor in assessing the potential revenues that may be generated by an outlet at a particular location. Many national chains have very specific traffic count ranges whereby they analyze and assess the potential of a location. According to data from the Minnesota Department of Transportation, the traffic counts in 2003 (the most current year available) along the Highway 7 Corridor and along Main Street were as follows:

TRAFFIC COUNTS
2003

Location	AADT *
Highway 7	
Highway 22 to Michigan St.	8,700
Michigan St. to Bluff St.	9,100
Bluff St. to Highway 15	8,900
Highway 15 to California St.	10,900
California St. to School Rd.	11,200
School Rd. to Shady Ridge Rd.	9,600
Shady Ridge Rd. to City Limits	6,500
Highway 15 (Main Street)	
Highway 7 to 5th Ave. NW	8,700
Highway 7 to Washington Ave.	12,500
Washington Ave. to 2nd Ave.	13,000

* AADT=Average Annual Daily Traffic

Source: Minnesota Department of Transportation

On average, traffic counts on Highway 7 through Hutchinson average between 9,000 to 11,000 vehicles per day. Highway 7 traffic counts are highest between California Street and School Road, on the western end of Highway 7 in Hutchinson. However, the intersection of Highways 7 and 15 produce the highest combined traffic counts in the community, accounting for more than 20,000 vehicles per day.

Appropriateness of Highway 7 for Redevelopment Opportunities

In general, Highway 7 through Hutchinson has a tired look and is a “drive-through” for many non-local vehicles. The Highway 7 Corridor contains a variety of real estate uses, ranging from hospitality, housing, gas stations, office space, to manufacturing and light industrial. The recent realignment by MNDOT of the highway presents a number of new development opportunities for both commercial and residential uses. Access and visibility will be critical for many businesses to succeed along the corridor.

Introduction

This section of the report presents our analysis of the demand for housing within the Highway 7 Corridor Area in Hutchinson, based on our examination of demographic characteristics, growth trends, and the housing market situation in the Market Area. We first determined an appropriate draw area, or Market Area, from which housing in Hutchinson would likely attract buyers/renters. We then analyzed key demographic data in the Market Area, as they relate to the demand for new housing units. Demographic data analyzed include population, household and employment growth trends, population age distribution, household incomes and household tenure.

The existing supply of owned and rental housing in the Market Area is assessed. We analyzed overall rental vacancy and for both general-occupancy and age-restricted housing. Additionally, resales of both single-family and multifamily homes in Hutchinson were compiled. We also inventoried planned housing developments in Hutchinson.

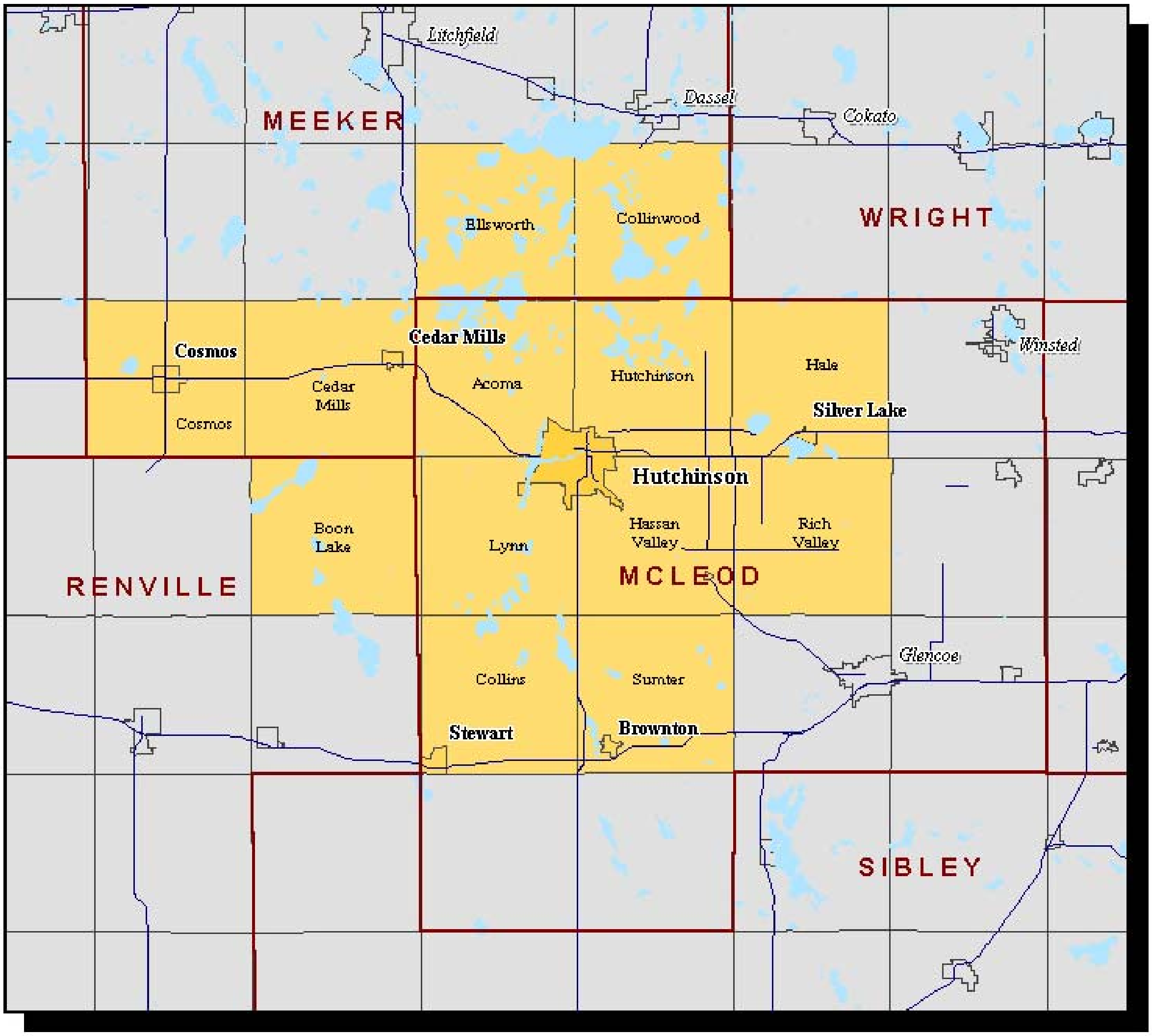
Based on our analysis, we quantified the potential demand for housing in the Highway 7 Corridor Study Area through 2015.

Housing Market Area Definition

The primary draw area (Market Area) for housing in Hutchinson was defined based on traffic patterns, community and school district boundaries, and shopping patterns as indicated in our community interviews during the course of this study. The Market Area includes 13 townships and 5 small cities surrounding Hutchinson, an area extending roughly 8 to 18 miles from Hutchinson's border. These communities in the Market Area serve as "bedroom communities" for Hutchinson, although most commuters who work in Hutchinson and live outside of the city do so by choice. Some persons prefer a more rural atmosphere while others have attachments to the communities where they currently live or a spouse working in that community.

This Market Area is the same as the previous Comprehensive Housing Study in Hutchinson, completed in 2004, and is shown on the map on the following page.

Hutchinson Market Area



Maxfield Research Inc.

Demographic Overview

Introduction

Population and household growth trends are analyzed in this section because these are key indicators of the potential demand for new housing units. We also analyzed data on population age distribution, household income, household tenure, and employment. This information is helpful in assessing demand for various housing products.

Population & Household Growth Trends and Projections

Table 1 presents population and household growth trends and projections for the Market Area from 1990 to 2020. The 1990 and 2000 population and household figures were obtained from the U.S. Census Bureau, while the projections for 2010 and 2020 were adjusted by Maxfield Research based on projections from Minnesota Planning. The following summarizes key demographic findings.

- The population in the City of Hutchinson increased by 13.5% during the 1990s. During the same time, the Remainder of the Market Area decreased by 1.3%.

- Between 2000 and 2010 Hutchinson is projected to add 1,420 persons (11%) and the Market Area is projected to add about 2,400 persons (10%). This compares to a 7.4% projected growth rate in McLeod County.

- Since households represent occupied housing units, household growth trends are a much better indicator of housing demand than population growth trends. Between 2000 and 2010, the Market Area is forecast to add 1,600 households, 12% increase. The majority of this household growth (60%) will be located in the City of Hutchinson.

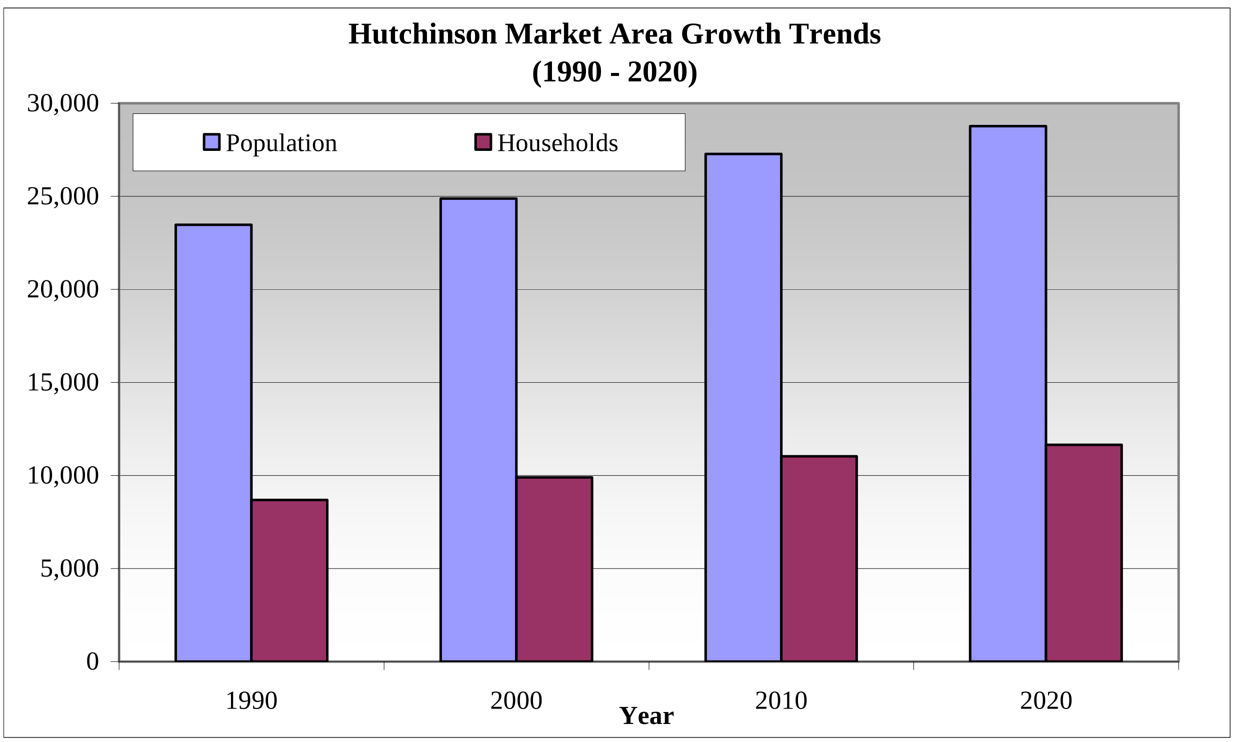


TABLE H-1
POPULATION & HOUSEHOLD GROWTH TRENDS AND PROJECTIONS
HUTCHINSON MARKET AREA
1990 to 2020

	Census		Estimate	Projection			Change					
							1990 to 2000		2000 to 2010		2010 to 2020	
	1990	2000	2007	2010	2015	2020	No.	Pct.	No.	Pct.	No.	Pct.
Population												
Hutchinson	11,523	13,080	14,074	14,500	15,000	15,500	1,557	13.5	1,420	10.9	1,000	6.9
Remainder	11,949	11,798	12,478	12,770	13,018	13,265	-151	-1.3	972	8.2	495	3.9
Total	**23,472**	**24,878**	**26,552**	**27,270**	**28,018**	**28,765**	**1,406**	**6.0**	**2,392**	**9.6**	**1,495**	**5.5**
McLeod County	*32,030*	*34,898*	36,712	*37,490*	38,635	*39,780*	*2,868*	*9.0*	*2,592*	*7.4*	*2,290*	*6.1*
Households												
Hutchinson	4,483	5,333	5,835	6,050	6,250	6,450	850	19.0	717	13.4	400	6.6
Remainder	4,196	4,559	4,847	4,970	5,085	5,200	363	8.7	411	9.0	230	4.6
Total	**8,679**	**9,892**	**10,682**	**11,020**	**11,335**	**11,650**	**1,213**	**14.0**	**1,128**	**11.4**	**630**	**5.7**
McLeod County	*11,815*	*13,449*	14,570	*15,050*	15,845	*16,640*	*1,634*	*13.8*	*1,601*	*11.9*	*1,590*	*10.6*

Sources: Bureau of the Census; MN Demographic Center;
Maxfield Research Inc.

- The average household size in Hutchinson decreased from 2.57 people in 1990 to 2.45 people in 2000, with projections indicating 2.40 in 2010. The aging of the population, including baby boomers into their 50s and 60s (who are becoming empty nesters) along with smaller average family sizes are the primary reasons for decreasing household size. These trends will continue to generate demand for more diverse housing products over the next 15 to 20 years.

Age Distribution

Table H-2 presents the age distribution of the Market Area population from the 1990 and 2000 Census, and projected to 2010 by Maxfield Research, based on data from Claritas, Inc (a national demographics firm). Age distribution affects demand for different types of housing since needs and desires change at different stages of the life cycle. The table shows the number of people and the percentage of the population in eight age categories.

- With the exception of the 25 to 34 year olds and persons ages 65 to 74, every age group in the Market Area increased in population during the 1990s.

- The Market Area's population of 25 to 34 year olds, which consists primarily of renters and first-time homebuyers, decreased by about 12% between 1990 and 2000.

- Between 2000 and 2010, the Market Area is projected to experience population declines in the under 18 and 35 to 44 age cohorts. The under 18 cohort is expected to lose about 137 persons (-2%) and the 35 to 44 age cohort is expected to lose about 40 persons (-1%).

- All age cohorts are projected to grow between 2000 and 2010.

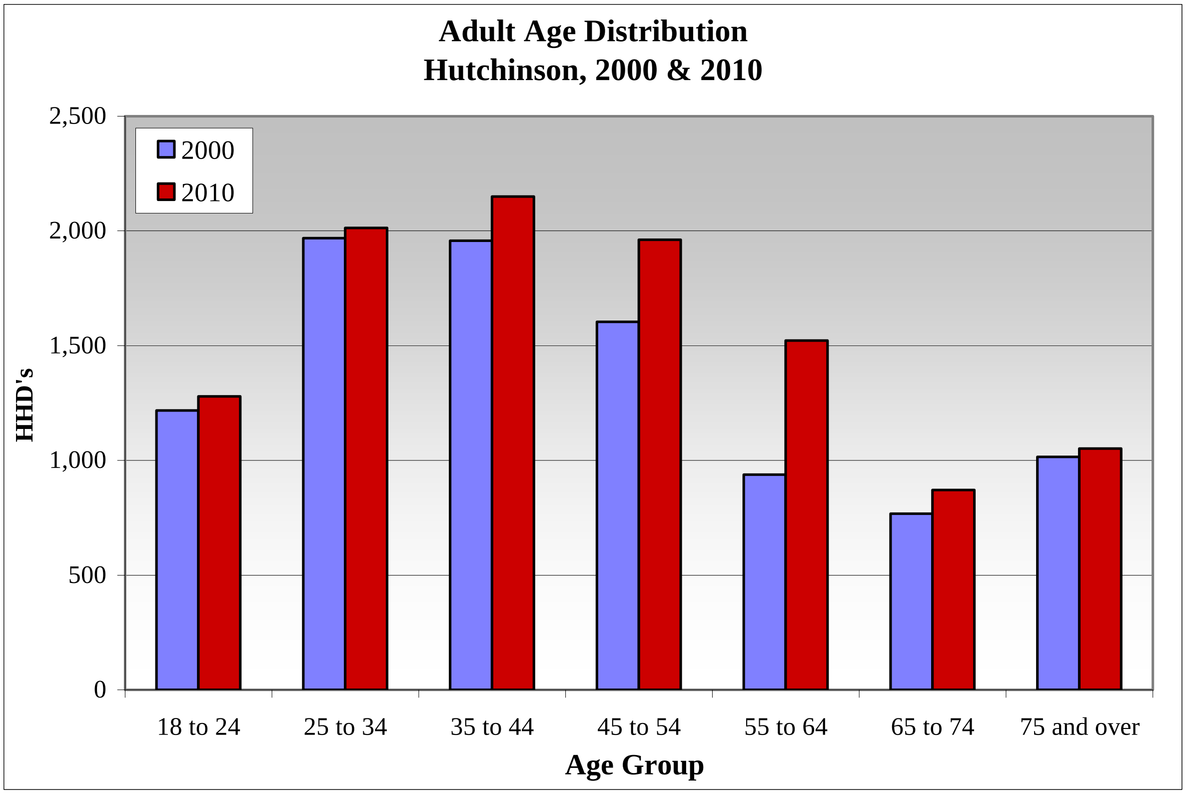
- Multifamily housing within the Highway 7 Corridor Area will appeal primarily to a combination of young singles and couples, middle-age households without children, and empty nesters and seniors. The population age 18 to 24 is projected to grow by about 425 people (21.5%) between 2000 and 2010, and the population age 55 and over is projected to grow by nearly 1,000 people (17.4%) over the same period.

- In 2000, the Market Area had about 3,445 seniors age 65 and over. By 2010, the senior population is projected to grow by about 280 seniors, an increase of 8%.

TABLE H-2
PROJECTED AGE DISTRIBUTION
HUTCHINSON MARKET AREA
1990 to 2010

	Census		Forecast	Change			
				1990-2000		2000-2010	
Age	**1990**	**2000**	**2010**	**No.**	**Pct.**	**No.**	**Pct.**
Hutchinson							
Under 18	3,360	3,611	3,653	251	7.5	42	1.2
18 to 24	1,095	1,217	1,278	122	11.1	61	5.0
25 to 34	2,098	1,969	2,014	-129	-6.1	45	2.3
35 to 44	1,643	1,957	2,149	314	19.1	192	9.8
45 to 54	946	1,604	1,961	658	69.6	357	22.3
55 to 64	765	938	1,522	173	22.6	584	62.2
65 to 74	808	768	871	-40	-5.0	103	13.4
75 and over	808	1,016	1,051	208	25.7	35	3.5
Total	**11,523**	**13,080**	**14,500**	**1,557**	**13.5**	**1,420**	**10.9**
Remainder of Market Area							
Under 18	3,520	3,346	3,167	-174	-4.9	-179	-5.4
18 to 24	844	771	1,137	-73	-8.6	366	47.4
25 to 34	1,687	1,359	1,520	-328	-19.4	161	11.8
35 to 44	1,776	2,110	1,877	334	18.8	-233	-11.0
45 to 54	1,313	1,842	1,877	529	40.3	35	1.9
55 to 64	1,029	1,270	1,392	241	23.4	122	9.6
65 to 74	1,033	826	817	-207	-20.0	-9	-1.1
75 and over	747	835	983	88	11.8	148	17.8
Total	**11,949**	**12,359**	**12,770**	**410**	**3.4**	**411**	**3.3**
Market Area Total							
Under 18	6,880	6,957	6,820	77	1.1	-137	-2.0
18 to 24	1,939	1,988	2,415	49	2.5	427	21.5
25 to 34	3,785	3,328	3,533	-457	-12.1	205	6.2
35 to 44	3,419	4,067	4,027	648	19.0	-40	-1.0
45 to 54	2,259	3,446	3,838	1,187	52.5	392	11.4
55 to 64	1,794	2,208	2,914	414	23.1	706	32.0
65 to 74	1,841	1,594	1,688	-247	-13.4	94	5.9
75 and over	1,555	1,851	2,035	296	19.0	184	9.9
Total	**23,472**	**25,439**	**27,270**	**1,967**	**8.4**	**1,831**	**7.2**

Sources: Bureau of the Census; Claritas, Inc.
Maxfield Research Inc.



Household Income

Household income data helps ascertain the demand for different types of owned and rented housing based on the size of the market at specific cost levels, and also provides insight into the amount of discretionary dollars that consumers may have to spend on goods and services. In general, housing costs of up to 30% of income are considered affordable by the Department of Housing and Urban Development. Table H-3 shows household income in the Hutchinson Market Area for 2007 and 2012, respectively. Household income data was compiled by Claritas, Inc. (a nationally recognized demographics firm) and adjusted by Maxfield Research Inc., based on household projections.

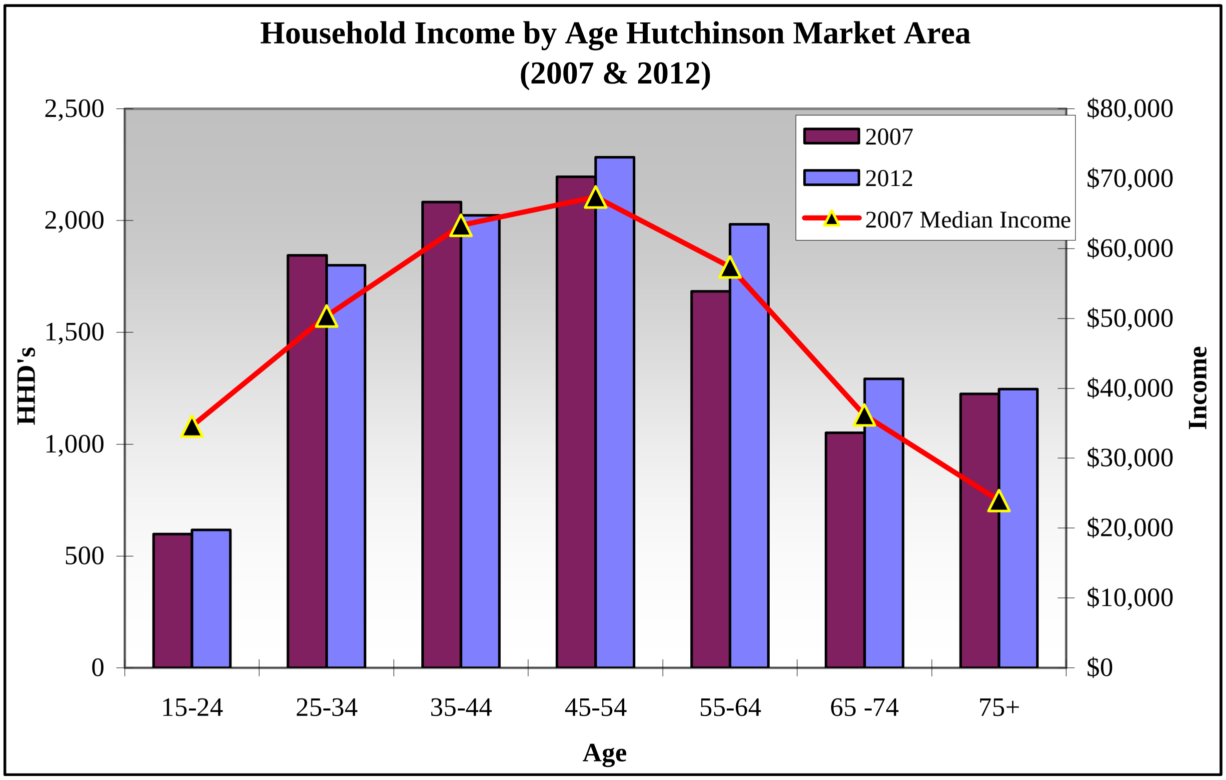
- Assuming housing costs absorb 30% of gross income, a household age 15 to 24 earning the median household income ($34,580) could afford a maximum monthly rent of about $865 (including rent, utilities, and garage parking) or a maximum purchase price of about $104,000 to $121,000 (calculating a home purchase price of 3.0 to 3.5 times household income).

TABLE H-3
HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER
HUTCHINSON MARKET AREA
(Number of Households)
2007 & 2012

		Age of Householder						
	Total	**15-24**	**25-34**	**35-44**	**45-54**	**55-64**	**65 -74**	**75+**
2007								
Less than $15,000	1,027	66	103	121	80	119	160	378
$15,000 to $24,999	1,110	125	189	150	119	93	172	262
$25,000 to $34,999	1,237	113	232	125	181	201	174	212
$35,000 to $49,999	1,846	125	392	291	331	285	243	179
$50,000 to $74,999	2,632	126	541	665	555	482	160	103
$75,000 to $99,999	1,540	28	284	397	470	265	56	40
$100,000 or more	1,289	16	106	334	459	237	86	51
Total	10,682	598	1,845	2,083	2,196	1,683	1,051	1,225
Median Income	$51,144	$34,582	$50,363	$63,346	$67,405	$57,391	$36,196	$23,939
2012								
Less than $15,000	976	66	90	116	79	141	154	330
$15,000 to $24,999	1,032	102	159	120	100	103	191	256
$25,000 to $34,999	1,209	125	210	128	181	198	174	192
$35,000 to $49,999	1,795	98	332	221	298	302	327	218
$50,000 to $74,999	2,667	170	507	596	518	541	221	114
$75,000 to $99,999	1,723	28	311	404	486	340	98	56
$100,000 or more	1,844	28	190	439	623	358	126	80
Total	11,246	616	1,801	2,024	2,283	1,983	1,292	1,246
Median Income	$55,729	$37,282	$55,346	$67,914	$73,408	$61,444	$40,795	$26,934
Change 2006 -2011								
Less than $15,000	-51	-0	-12	-5	-1	22	-6	-49
$15,000 to $24,999	-78	-23	-29	-30	-20	10	19	-6
$25,000 to $34,999	-29	12	-21	3	-1	-3	0	-19
$35,000 to $49,999	-51	-27	-60	-70	-33	17	84	39
$50,000 to $74,999	35	44	-34	-69	-38	59	61	11
$75,000 to $99,999	183	-1	27	7	15	75	42	17
$100,000 or more	555	12	84	105	164	121	41	28
Total	564	18	-45	-59	87	301	242	21
Median Income	$4,585	$2,700	$4,982	$4,568	$6,003	$4,053	$4,599	$2,994

Sources: Claritas, Inc.;
Maxfield Research Inc.

- Households ages 25 to 34 are typically in the rental market or entry-level for-sale market. Their median income in 2007 is estimated to be approximately $50,360. With this income, a household could afford a monthly rent of about $1,260 (including rent, utilities, and garage parking) or a maximum purchase price of about $151,000 to $176,260. Younger households earning the median income will primarily be a market for entry-level ownership housing or higher-end rental housing. Very few households would be willing to pay $1,260 for rent.



- Households ages 35 to 64 had among the highest estimated median incomes in the Market Area in 2007 ($63,346, 67,405, and $57,391 respectively, for ten-year age groups). Households ages 55 to 64 will be a larger market for multifamily housing in the Highway 7 Corridor than householders ages 35 to 54, many of whom may still prefer single-family homes. As households become empty nesters, they often opt for for-sale townhomes or condominiums, which require less maintenance, allowing them to spend more time on other activities, such as travel. The units that they purchase may often have an equal amount of square feet with upgraded finishes than their current single-family homes. Households ages 55 to 64 are projected to add 300 households during the next five years.

- Seniors ages 65 and over are a market for multifamily housing, including rental and owned housing. Typically, seniors no longer need the amount of space in their single-family homes and will seek multifamily housing that will free them from home maintenance. The median income in 2007 is an estimated $36,196 for younger seniors (ages 65 to 74) and $24,000 for older seniors (ages 75 and over).

- Younger senior households typically have a higher median income than older senior households because a greater percentage of younger seniors are still working or are two-person households (hence, drawing a greater amount of social security). While they typically have lower incomes, seniors often have substantial equity in existing homes and greater savings that they can allocate toward new housing.

Tenure by Age of Householder

Table H-4 shows the number of owner and renter households in the Hutchinson Market Area by age group in 1990 and 2000. This data is useful in determining demand for certain types of housing since housing preferences change throughout an individual's life cycle. Key points derived from the table are:

- In 2000, about 79% of the households in the Market Area owned their housing, a slight increase from 76.8% in 1990.

- The proportion of renter households decreases significantly as households age. However, by the time households reach their senior years, rental housing often becomes a more desirable option than homeownership. In 2000, 76% of Hutchinson's households between the ages of 15 and 24 rented their housing, compared to 42% of households between the ages of 25 and 34. Householders between 35 and 64 were overwhelmingly homeowners, with no more than 20% of the householders in each 10-year age cohort renting their housing.

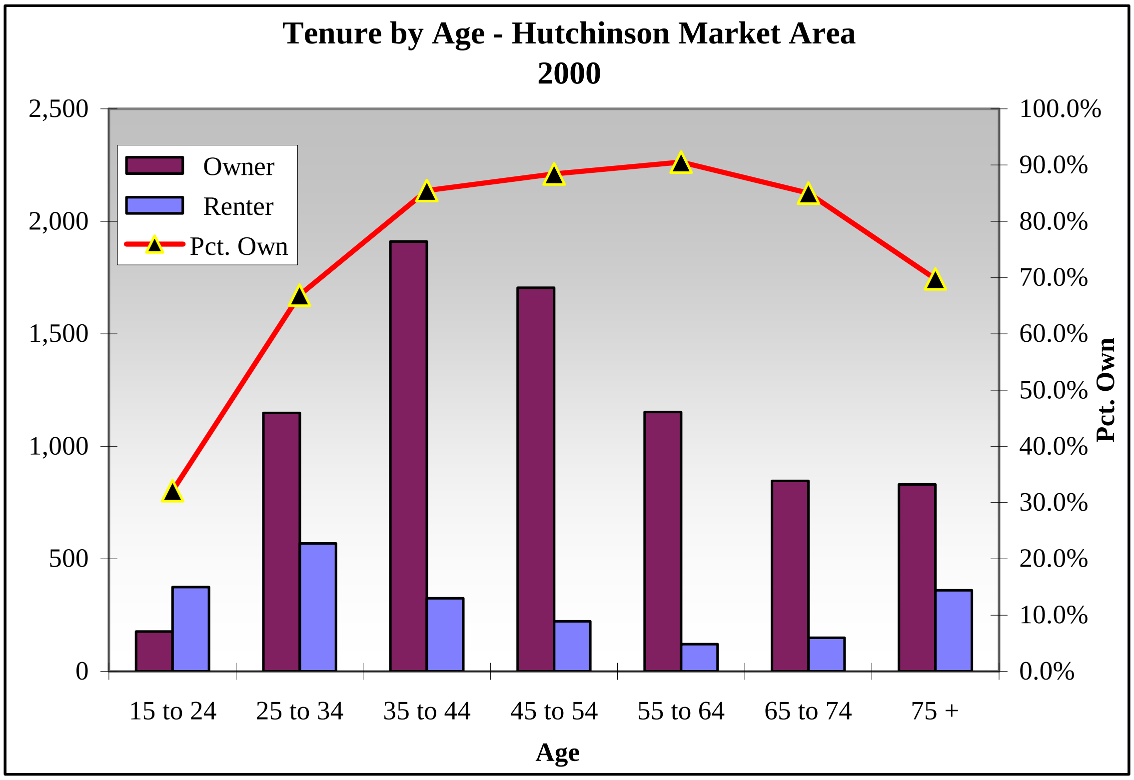
- The significantly higher homeownership rates in the remainder of the Market Area (89.5%) compared to Hutchinson (69.2%) reflects the rural character of the area, where traditional agricultural land use and lack of infrastructure typically cannot support higher density rental housing. In addition, homeownership is more feasible in outlying rural areas because the cost of owning a single-family home is typically lower than in communities the size of Hutchinson or larger. Furthermore, rental demand is less in rural areas because a large percentage of younger households, who are primarily renters, migrate to urban areas, such as Hutchinson.

- We project that the homeownership rate will increase again during this decade, due to several factors. Two primary factors are that the baby boom generation will remain in high homeownership stages of their lives (they will be ages 46 to 64 in 2010), and low mortgage rates are making ownership more affordable. We believe that these two factors will contribute to demand for multifamily for-sale housing in the Market Area, and the Highway 7 Corridor has the potential to capture a portion of this demand.

TABLE H-4
TENURE BY AGE OF HOUSEHOLDER
HUTCHINSON MARKET AREA
1990 to 2000

	Age of Householder															
	15-24		25-34		35-44		45-54		55-64		65-74		75+		Total	
	Own	Rent	Own	Rent	Own	Rent	Own	Rent	Own	Rent	Own	Rent	Own	Rent	Own	Rent
2000																
Hutchinson	**106**	**331**	**645**	**459**	**896**	**229**	**777**	**166**	**473**	**93**	**388**	**109**	**406**	**255**	**3,691**	**1,642**
Pct. Own	*24.3%*		*58.4%*		*79.6%*		*82.4%*		*83.6%*		*78.1%*		*61.4%*		*69.2%*	
Rem. of Market Area	71	43	503	110	1,014	96	928	57	680	28	459	40	425	105	4,080	479
Pct. Own	*62.3%*		*82.1%*		*91.4%*		*94.2%*		*96.0%*		*92.0%*		*80.2%*		*89.5%*	
Market Area Total	**177**	**374**	**1,148**	**569**	**1,910**	**325**	**1,705**	**223**	**1,153**	**121**	**847**	**149**	**831**	**360**	**7,771**	**2,121**
Pct. Own	***32.1%***		***66.9%***		***85.5%***		***88.4%***		***90.5%***		***85.0%***		***69.8%***		***78.6%***	
1990																
Hutchinson	**81**	**311**	**660**	**495**	**739**	**168**	**461**	**81**	**372**	**62**	**391**	**134**	**319**	**209**	**3,023**	**1,460**
Pct. Own	*20.7%*		*57.1%*		*81.5%*		*85.1%*		*85.7%*		*74.5%*		*60.4%*		*67.4%*	
Rem. of Market Area	55	58	605	166	793	102	675	42	536	30	561	61	419	93	3,644	552
Pct. Own	*48.7%*		*78.5%*		*88.6%*		*94.1%*		*94.7%*		*90.2%*		*81.8%*		*86.8%*	
Market Area Total	**136**	**369**	**1,265**	**661**	**1,532**	**270**	**1,136**	**123**	**908**	**92**	**952**	**195**	**738**	**302**	**6,667**	**2,012**
Pct. Own	***26.9%***		***65.7%***		***85.0%***		***90.2%***		***90.8%***		***83.0%***		***71.0%***		***76.8%***	
Percentage Change 1990 to 2000																
Hutchinson	31%	6%	-2%	-7%	21%	36%	69%	105%	27%	50%	-1%	-19%	27%	22%	22%	12%
Rem. of Market Area	29%	-26%	-17%	-34%	28%	-6%	37%	36%	27%	-7%	-18%	-34%	1%	13%	12%	-13%
Market Area Total	30%	1%	-9%	-14%	25%	20%	50%	81%	27%	32%	-11%	-24%	13%	19%	17%	5%

Sources: Bureau of the Census, Maxfield Research Inc.



- The increased diversity of household types in the Market Area, caused by overall lifestyle changes, is creating a need for a wider range of housing options. For example, non-family householders tend to rent their housing, as this category includes many elderly widows as well as young people. Young people typically do not have sufficient incomes to purchase housing, while single seniors are more likely to move to multifamily housing to shed the burden of home maintenance and increase opportunities for socialization.

Employment Trends

Since employment growth generally fuels household growth, employment trends are a reliable indicator of housing demand. Typically, households prefer to live near work for convenience. However, housing is often less expensive in smaller towns, making commuting from outlying communities to work in larger employment centers attractive for households concerned about housing affordability.

Recent employment growth trends for McLeod County is illustrated in Table H-5. The Table presents resident employment data for the County from 2000 through 2006. Resident employment data is calculated as an annual average *and reveals the work force and number of employed persons living in the County*. It is important to note that not all of these individuals necessarily work in the County.

The following are key trends derived from the employment data:

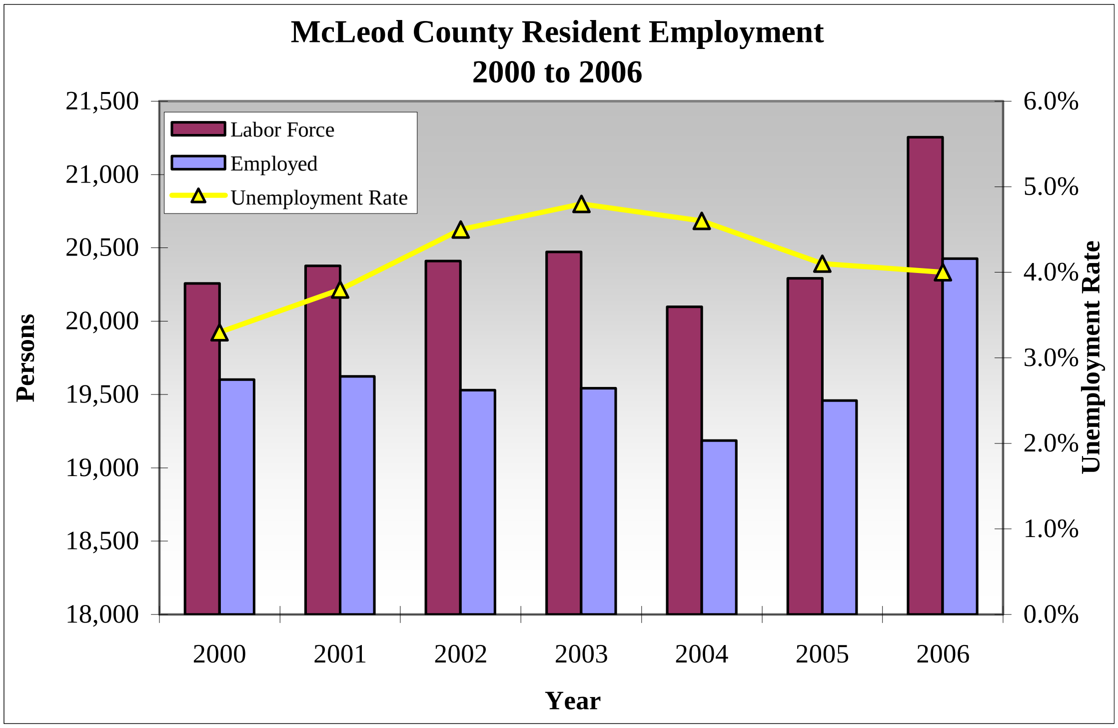
- Between 2000 and 2006, McLeod County's labor force increased from 20,257 persons in 2000 to 21,253 persons in 2006, and increase of about 5%. Similarly, the number of employed persons increased by 4.2% over the same time period.

TABLE H-5
RESIDENT EMPLOYMENT
MCLEOD COUNTY
2000 through 2006

Year	Labor Force	Employed	Unemployed	Rate	Minnesota Unemployment Rate
2000	20,257	19,602	655	3.2%	3.3%
2001	20,377	19,623	754	3.7%	3.8%
2002	20,410	19,530	880	4.3%	4.5%
2003	20,472	19,544	928	4.5%	4.8%
2004	20,098	19,187	911	4.5%	4.6%
2005	20,292	19,458	834	4.1%	4.1%
2006	21,253	20,426	827	3.9%	4.0%
Change 2000-2006					
Number	996	824	172	--	--
Percent	4.9%	4.2%	26.3%	--	--

Sources: Minnesota Department of Economic Security
Maxfield Research Inc.

- Between 2000 and 2006, the unemployment rate in the County was below 4.5%, with a low of 3.2% in 2000. Between those years, the unemployment rate was lower than the State of Minnesota's.



Major Employers in Hutchinson

Table H-6 displays major employers in Hutchinson and the number of total persons employed.

- The 14 employers as illustrated in Table H-6, all employ at least 100 people. Combined, the companies have a total of 6,113 employees, or about one-third of the total employment in McLeod County (See Table H-5).

- HTI and 3M remain Hutchinson's largest employers, with 1,791 and 1,781 employees, respectively in May 2007. Combined, HTI and 3M account for one-half of the total employees among the major employers illustrated in Table H-6.

TABLE H-6
MAJOR EMPLOYERS
CITY OF HUTCHINSON
May 2007

Name	Product/Service	Total Employees
Hutchinson Technology Inc (HTI)	Computer & Peripheral Equip. Manufacturing	1,791
3M Corp	Other Misc. Manufacturing	1,781
Hutchinson Area Health Care	General Medical & Hospital	686
Wal-Mart	Department Stores	400
Hutchinson Schools ISD #423	Elementary & Secondary Schools	350
Cash Wise Foods	Grocery Stores	240
Menards	Home Improvement Store	160
Hutchinson Medical Center	Offices of Physicians	140
Goebel Fixture Co.	Other Wood Product Manufacturing	125
Target	Department Stores	120
Hutchinson Mfg. Sales Inc.	Machine Shop	110
Shopko	Department Stores	110
City of Hutchinson	Government	100

Note: Employment figure were obtained from the MN Dept. of Economic Security

Source: Maxfield Research Inc.

Rental Housing Market Analysis

Table H-7 shows unit counts and vacancy rate data for the City of Hutchinson for general-occupancy market rate, age-restricted, and income restricted units from 2000 to 2006. The data is collected each April by the Hutchinson Housing and Redevelopment Authority. The following are key points.

- The equilibrium vacancy rate for rental housing is considered to be 5.0%. This vacancy rate allows for normal turnover and an adequate supply of alternatives for prospective renters. As of April 2006, the apartment vacancy rate in Hutchinson was 4.6%, indicating the rental market is near equilibrium.

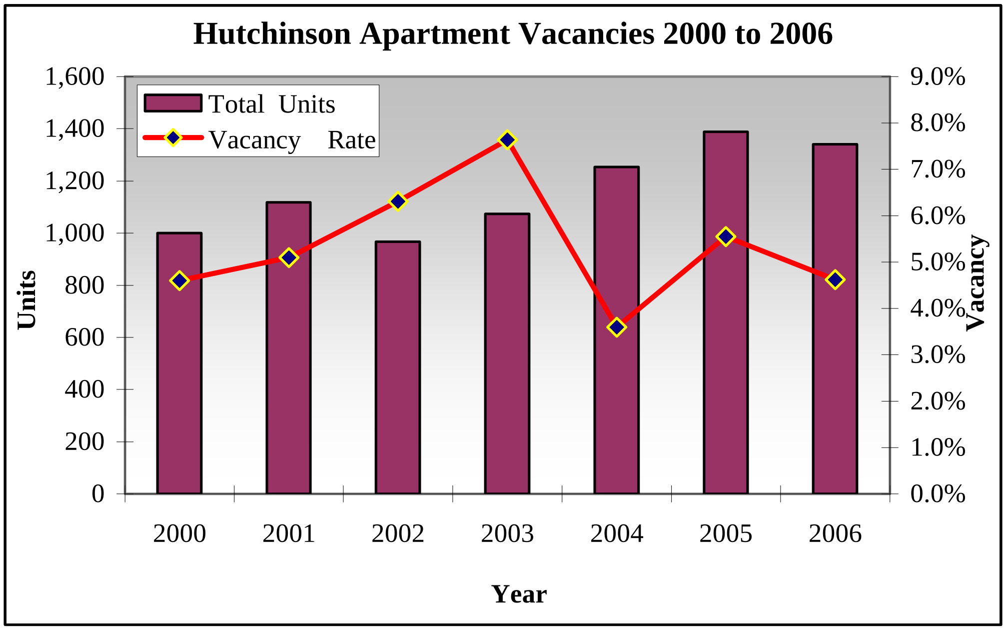
- Over this past year, vacancies were lowest among senior housing projects, posting a 3.5% vacancy rate. The high vacancy rate of 12.5% in 2005 is attributed to the completion of *The Pines*, which was in its initial lease-up period.

TABLE H-7
HUTCHINSON APARTMENT VACANCIES
MARKET RATE-GENERAL OCCUPANCY, SENIOR HOUSING, AND INCOME RESTRICTED PROJECTS
YEAR 2000 TO 2006 (Through April)

	General Occupancy-Market Rate			Senior Housing			Income Restricted			Combined Total		
Year	Total Units	Total Vacant	Vacancy Rate	Total Units	Total Vacant	Vacancy Rate	Total Units	Total Vacant	Vacancy Rate	Total Units	Total Vacant	Vacancy Rate
2000	530	36	6.79%	192	8	4.17%	278	2	0.72%	1,000	46	4.6%
2001	615	46	7.48%	309	9	2.91%	194	2	1.03%	1,118	57	5.1%
2002	468	45	9.62%	281	9	3.20%	218	7	3.21%	967	61	6.3%
2003	666	65	9.76%	168	5	2.98%	240	12	5.00%	1,074	82	7.6%
2004	753	32	4.25%	282	2	0.71%	218	11	5.05%	1,253	45	3.6%
2005	838	22	2.63%	332	43	12.95%	218	12	5.50%	1,388	77	5.5%
2006	761	31	4.07%	314	11	3.50%	266	20	7.52%	1,341	62	4.6%
Averages	**662**	**40**	**5.98%**	**268**	**12**	**4.63%**	**233**	**9**	**4.04%**	**1,163**	**61**	**5.28%**

Note: All inventoried vacancies were completed in the month of April

Source: Maxfield Research Inc., Hutchinson HRA Apartment Vacancy Report



Pending Rental Developments

Maxfield Research interviewed community development staff at Market Area communities to determine if any rental developments are planned or proposed to be developed in the Market Area. Presently, we did not identify any pending rental developments in the Market Area.

For-Sale Housing Market Analysis

Single-Family Home Resales

Maxfield Research analyzed single-family and multifamily housing resale data for Hutchinson from the Regional Multiple Listing Service of Minnesota (MLS). Table H-8 shows the number of units sold each year, median number of days on the market, and median and average sale price. The following are key points about the resale housing market.

TABLE H-8
SINGLE-FAMILY AND MULTI-FAMILY RESIDENTIAL SALES
HUTCHINSON MLS
2000 through 2006

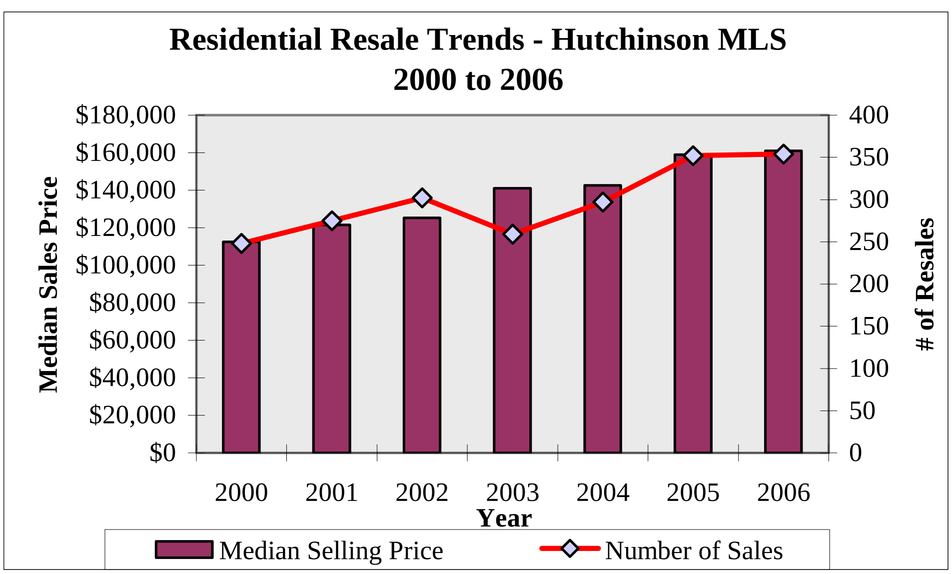
District	Year	Number of Sales	Median Selling Price	% Chg.	Average Selling Price	% Chg.	Average Market Time (Days)
Hutchinson	2000	248	$112,500	0%	$119,566	1%	95
(307)	2001	275	$121,500	8%	$131,692	10%	92
	2002	302	$125,300	3%	$139,712	6%	78
	2003	259	$141,000	13%	$148,482	6%	74
	2004	297	$142,600	1%	$155,930	5%	72
	2005	352	$158,850	11%	$174,738	12%	85
	2006	354	$161,000	1%	$173,296	-1%	100

Sources: Regional Multiple Listing Service of Minnesota (MLS)
Maxfield Research Inc.

- The median sale price in 2006 in Hutchinson was $161,000. This was an increase from $158,850 in 2005. Overall, the median price of homes increased by 43% during the six-year period, or about 7% per year.

- Average days on market has increased from 85 days in 2005 to 100 days in 2006, a 18% increase. This suggests the housing market is returning to normal levels following several years where housing units moved more rapidly.

- In 2006, the median sale price of single-family resales in Hutchinson was $161,000. Based on the industry standard that a household can afford a home priced 3.0 to 3.5 times their income (excluding savings or debt that a household may have), a household would need an income of $46,000 to $53,670.



Active Single-family & Multifamily Listings

Table H-9 shows the number of single-family and multifamily homes currently listed for sale in Hutchinson distributed into nine price ranges. The data was provided by the Regional Multiple Listing Service. Key findings from Table H-9 include:

- A total of 180 homes were listed for-sale in May 2007. The average and median prices of the homes listed for sale were $202,554 and $179,900, respectively.

- About 63% of the housing stock listed for sale in Hutchinson is priced below $200,000.

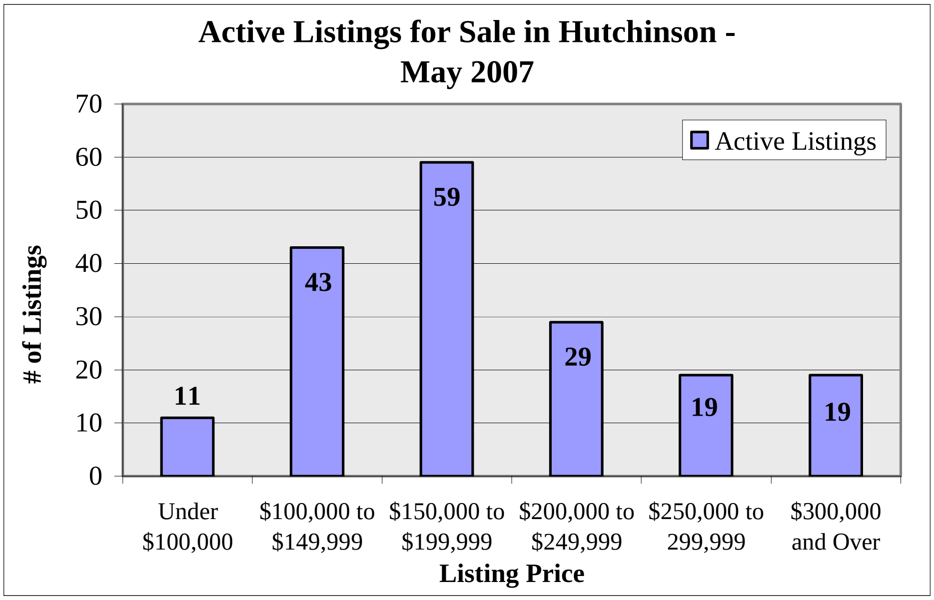
- Approximately 21% of active listings are priced $250,000 or more.

TABLE H-9
HOMES CURRENTLY LISTED FOR-SALE
CITY OF HUTCHINSON
May 2007

Price Range	No.	Pct.
<$99,999	11	6.1%
$100,000 to $124,999	14	7.8%
$125,000 to $149,999	29	16.1%
$150,000 to $174,999	32	17.8%
$175,000 to $199,999	27	15.0%
$200,000 to $249,999	29	16.1%
$250,000 to 299,999	19	10.6%
$300,000 to $399,999	14	7.8%
$400,000 & Over	5	2.8%
	180	100%

Minimum	$69,900
Maximum	$629,000
Median	$179,900
Average	$202,554

Sources: Regional Multiple Listing Service of MN
Maxfield Research Inc.



Pending For-Sale Developments

Maxfield Research interviewed municipal staff members in Hutchinson to identify pending single-family and multifamily developments that may be competitive with a new for-sale project in Hutchinson in the Highway 7 Corridor Study Area. At this time, there are no pending developments.

Senior Housing Analysis

The term "senior housing" refers to any housing development that is restricted to people age 55 or older. Senior housing includes an entire spectrum of housing alternatives, with overlapping markets making the differences somewhat ambiguous. However, the level of support services offered best distinguishes them. Maxfield Research Inc. classifies senior housing developments into four categories based on the level of support services:

Adult/Few Services; where few, if any, support services are provided. "Adult" housing includes both rental and ownership (such as senior condominiums, cooperatives, or townhomes).

Congregate; where support services such as meals and light housekeeping are provided, either on an optional basis for an additional fee (optional-service) or included in the monthly fee (service-intensive).

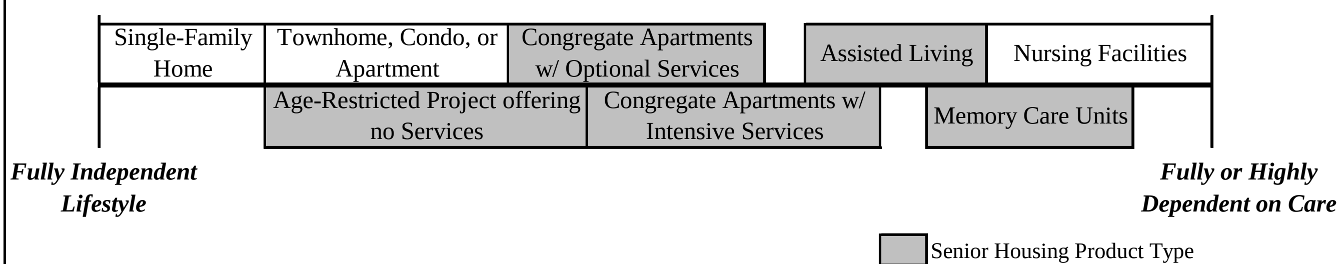
Assisted Living; where two or three daily meals as well as basic support services such as transportation, housekeeping and/or linen changes are included in the fees. Personal care services such as assistance with bathing, grooming, and dressing is included in the monthly fees or is available for an additional fee.

Memory Care; where more service-intensive personal care is required for people with dementia and Alzheimer's disease. Typically, support services and meal plans are similar to those found at assisted living facilities, but the heightened levels of personalized care demand more staffing and higher rental fees.

These four senior housing products tend to share several characteristics. First, they usually offer individual living apartments with living areas, bathrooms, and kitchens or kitchenettes. Second, they generally have an emergency response system with pull-cords or pendants. Third, they often have a community room and other common space to encourage socialization. Finally, they are age-restricted and offer conveniences desired by seniors, although assisted living developments sometimes serve non-elderly people with special health considerations.

The four senior housing products offered today form a continuum of care (Figure 1), from a low level to a fairly intensive one. Often the service offerings at one type overlap with those at another. In general, however, adult developments tend to attract younger, more independent seniors, while assisted living and memory care developments tend to attract older, frailer seniors.

FIGURE 1
CONTINUUM OF HOUSING AND SERVICES FOR SENIORS



Source: Maxfield Research Inc.

Table H-10 shows an inventory of market rate senior housing in the Hutchinson by the five product types described above. In total, we inventoried 325 market rate senior units in Hutchinson. Key points follow.

- Approximately 35% of the senior housing inventory is active adult product, the majority of which is owner-occupied housing. For-sale senior housing, both condominiums and cooperatives, have gained popularity in recent years and there is a growing trend in senior housing toward homeownership. As the younger senior cohort (those ages 65 to 74) swells with baby boomers in the next 10 to 15 years, we anticipate the demand for senior ownership housing to increase significantly. To some degree, this is already occurring due to changing lifestyles, better health among the senior population, and low interest rate mortgages. However, the pending demographic shift will have an even more pronounced effect on the senior housing market.

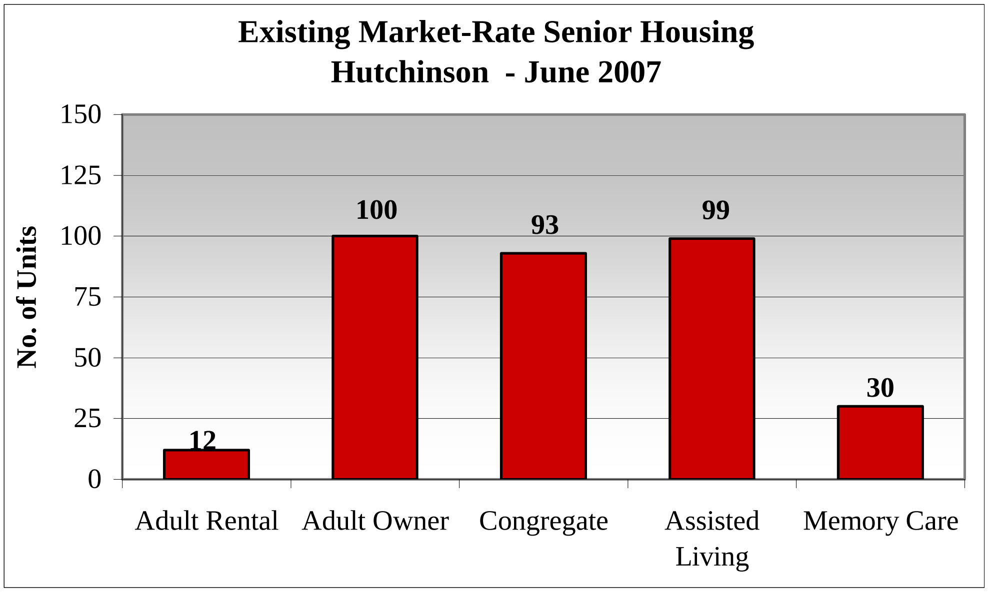
- Congregate senior housing product types, including both optional- and service-intensive projects, account for about 26% of the inventoried senior housing. Optional service facilities offer care for an additional fee, while service-intensive buildings automatically add services into the rent. Each type of project attracts a different type of resident. Independent residents will value the security from knowing services are available, but will desire the freedom to choose services a-la-carte. A frailer resident will pay for services as part of a higher rent because they will regularly use services.

- Assisted living projects account for about 31% of the surveyed inventory.

TABLE H-10
MARKET RATE SENIOR HOUSING DEVELOPMENTS
HUTCHINSON MARKET AREA
June 2007

Project	Location	Units	Product Type	Year Open
ADULT/FEW SERVICES				
Market Rate Rental				
Lakeside Manor	Silver Lake	12	Adult/Rental	N/A
Subtotal		**12**		
Ownership				
Community of Lakeridge	Hutchinson	32	Condominium	2005
Village Cooperative	Hutchinson	33	Cooperative	1994
Greencastle Condominiums	Hutchinson	35	Condominium	1987
Subtotal		**100**		
CONGREGATE				
Optional Services				
Prince of Peace	Hutchinson	40	Optional Services	1995
Subtotal		**40**		
Service Intensive				
The Pines	Hutchinson	44	Service Intensive	2005
Subtotal		**44**		
ASSISTED LIVING				
The Oaks	Hutchinson	42	Assisted Living	1999
Cedar Crest Estates	Hutchinson	28	Assisted Living	1984
Cosmos Assisted Living Plus	Cosmos	29	Assisted Living	2003
Subtotal		**99**		
MEMORY CARE				
Prairie Senior Cottages	Hutchinson	16	Memory Care	1999
Cedar Crest Estates	Hutchinson	14	Memory Care	1984
Subtotal		**30**		
Total		**325**		

Source: Maxfield Research, Inc.



Competitive Pending Senior Developments

Maxfield Research did not identify any planned or pending senior housing developments in the Market Area.

Demand for General-Occupancy For-Sale and Rental Housing

Table H-11 presents for-sale and rental housing demand calculations for the Market Area between 2007 and 2015, and the estimated number of units supportable at a Site in the Highway 7 Corridor over this period. The following points summarize our demand calculations.

- According to projections, the Market Area is expected to grow by about 650 households between 2007 and 2015. Based on homeownership trends, we estimate that 80% of the demand will be for for-sale housing, resulting in demand for 520 for-sale units and 130 rental units between 2007 and 2015.

- Based on recent building trends and demographic shifts (increasing older adult population), we project that 30% of the for-sale owners will prefer multifamily housing (townhomes or condominiums), with the remaining preferring single-family homes. The result is demand for about 155 for-sale multifamily units in the Hutchinson Market Area from household growth through 2015.

TABLE H-11
PROJECTED DEMAND FOR FOR-SALE MULTIFAMILY AND RENTAL UNITS
HUTCHINSON MARKET AREA
2007 to 2015

		Total	For-Sale Multifamily	Rental Units
Projected new housing unit demand from household growth, 2007 to 2015		653		
(times) Estimated ownership demand	x	80.0%		
(equals) Projected Market Area demand for new for-sale housing units	=		522	
(equals) Projected Market Area demand for new rental units	=			131
(times) Estimated percent of units that will be for multifamily	x		30%	100%
(times) Estimated percent of units that will be for rental units	x		--	100%
(equals) Projected study area demand for new multifamily housing units	=		157	131
(equals) Estimated demand in the Market Area, 2007 to 2015	=		157	131
(plus) Demand from outside the Market Area (25%)	+		52	44
(equals) Demand for condominium and rental housing in Market Area	=		209	174
(less) Competitive units planned or pending in the Market Area	-		0	0
(equls) Total demand for for-sale M.F. and rental housing in Market Area	=		209	174
(times) Estimated percent of demand capturable at a Site in the Highway 7 Corridor	x		15% - 20%	30% - 35%
(equals) Units supportable at Site in the Highway 7 Corridor			**31 - 42**	**52 - 61**

Source: Maxfield Research Inc.

- Next, we estimate 25% of the total demand for for-sale and rental units in the Market Area will come from people currently living outside of the Market Area. A portion of this market will be former residents of the area, second home-buyers, such as snow-birds heading south for the winters. Adding this demand to the existing demand potential in the Market Area, results in a total estimated demand for 210 for-sale housing units and 175 rental units between 2007 and 2015.

- From the 2007 to 2015 estimates, pending units marketing in Hutchinson are subtracted. Since there are no units pending, we do not subtract any units from the demand table.

- The demand figures in Table H-11 are for the entire Market Area. Any one location, including sites throughout the Highway 7 Corridor, can only capture a portion of the demand. Capture rates for the Highway 7 Corridor are adjusted based on the strengths and weaknesses of the area, and the characteristics and target markets of the specific housing type. Capture rates are also adjusted based on housing trends in the Market Area, specifically Hutchinson.

- We estimate a site in the Highway 7 Corridor can capture about 15% to 20% of for-sale multifamily demand in the Market Area between 2007 and 2015. This estimate results in demand for 30 to 40 for-sale units.

- For rental units, we estimate that a site in the Highway 7 Corridor could capture 30% to 35% of demand in the Market Area between 2007 and 2015. This estimate results in demand for 50 to 60 rental units over this time-frame.

Introduction

The following points outline our methodology for assessing the condition of the retail market and the potential for future retail development along Highway 7 through Hutchinson.

- We analyze consumer expenditure data for people residing in the Market Area and identified daytime population counts, since some demand for goods and services in Hutchinson would likely come from people who do not reside in the Market Area, but are employed there.

- Based on our analysis of demographic growth, consumer expenditures and the current market situation, we quantify demand for retail space in the Highway 7 Corridor Area.

- We then make recommendations on appropriate retail uses in the Highway 7 Corridor Area, redevelopment opportunities and an overall marketing strategy (in the *Conclusions and Recommendations* section).

Retail Trade Area ("Market Area")

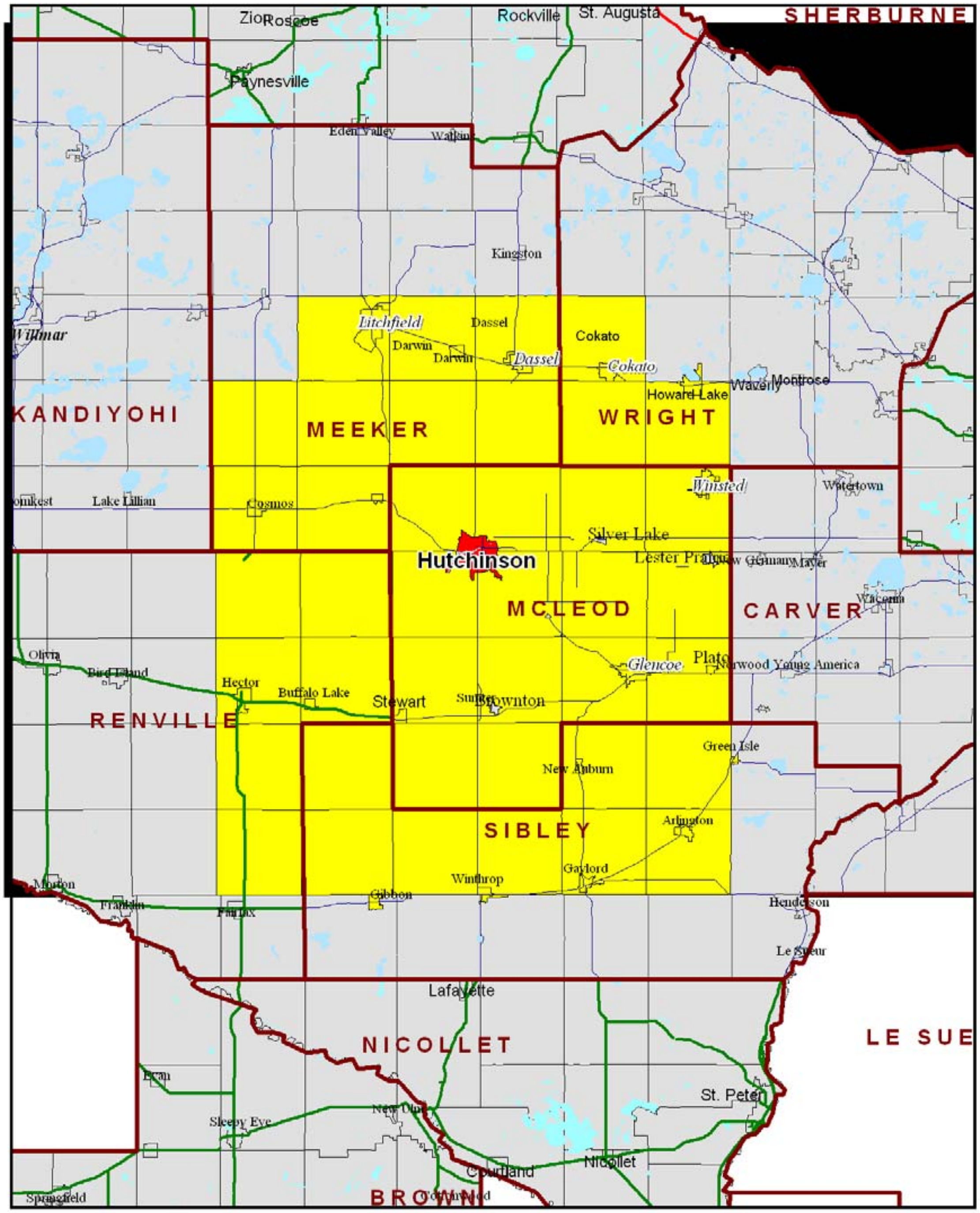
Table R-1 and map on the following page illustrate the Hutchinson Retail Market Area. The Market Area was defined based on commuting patterns, transportation corridors, and the existing commercial uses in other communities. The Market Area is the primary area that Hutchinson draws the majority of its business and is generally considered about a 25-mile radius. However, for specialty goods the draw area could capture from an area up to 50-miles.

TABLE R-1
HUTCHINSON RETAIL MARKET AREA
June 2007

County				
McLeod County	**Meeker Cty.**	**Sibley Cty.**	**Renville**	**Wright**
All	Cedar Mills	Arlington	Boon Lake Twp.	Cokato
	Cedar Mills Twp.	Arlington Twp.	Broofield Twp.	Cokato Twp.
	Collinwood Twp.	Bismark Twp.	Buffalo Lake	Howard lake
	Cosmos	Dryden Twp.	Hector	Stockholm Twp.
	Cosmos Twp.	Gaylord	Hector Twp.	Victor Twp.
	Danielson Twp.	Gibbon	Martinsburg Twp.	
	Darwin	Grafton Twp.	Preston lake Twp.	
	Darwin Twp.	Green Isle	Wellington Twp.	
	Dassel	Green Isle Twp.		
	Dassel Twp.	Moltke Twp.		
	Ellisworth Twp.	New Auburn		
	Greenleaf Twp.	New Auburn Twp.		
	Litchfield	Transit Twp.		
	Litchfield Twp.	Winthrop		

Source: Maxfield Research Inc.

Hutchinson Retail Market Area



Retail Population and Household Trends and Projections

The following are key points about population and household growth trends and projections in the Retail Market Area, as illustrated in Table R-2.

- In 2000, the Retail Market Area had 71,827 people and 27,520 households. This represented population growth of 9.3% during the 1990s and household growth of 12.7%.

- Growth between 2000 and 2010 is projected to be somewhat slower, with the population growing by 7.3%, to a total of 77,050 people, and households growing by 10%, to a total of about 30,270 households in 2010.

- In 2000, Hutchinson accounted for 18% of the Market Area's population and 19% of the Market Area's households. At the same time, McLeod County accounted for approximately one-half of the Market Area's population and household figures.

TABLE R-2
POPULATION AND HOUSEHOLD GROWTH TRENDS AND PROJECTIONS
HUTCHINSON RETAIL MARKET AREA
1990 to 2020

	Census		Projection			Change			
						1990 to 2000		2000 to 2010	
	1990	2000	2010	2015	2020	No.	Pct.	No.	Pct.
Population									
Market Area Total	**65,739**	**71,827**	**77,050**	**79,760**	**82,320**	**6,088**	**9.3**	**5,223**	**7.3**
Hutchinson	11,523	13,080	14,500	15,000	15,500	1,557	13.5	1,420	10.9
McLeod County	32,030	34,898	37,490	38,635	39,780	2,868	9.0	2,592	7.4
Households									
Market Area Total	**24,420**	**27,520**	**30,270**	**31,890**	**33,485**	**3,100**	**12.7**	**2,750**	**10.0**
Hutchinson	4,483	5,333	6,050	6,250	6,450	850	19.0	717	13.4
McLeod County	11,815	13,449	15,050	15,845	16,640	1,634	13.8	1,601	11.9

Sources: Bureau of the Census: U.S. Census of Population and Housing
Minnesota Planning
Maxfield Research Inc.

- Continued growth in the Retail Market Area will support the potential for additional retail. Hutchinson will be well positioned to capture the majority of future retail expenditures from new households in the Market Area.

Daytime Population / Commuting Patterns

Table R-3 shows the daytime population and resident workforce population in Hutchinson, according to the Census Bureau. People working in the Market Area who do not live there are a potential supplemental retail market base to Market Area residents. Maintaining and expanding the employment base in Hutchinson is important because the expansion of the employee base will help the viability of additional retail.

The table shows that in 2000, there was a large influx of employees that commuted to Hutchinson from other surrounding areas. Approximately 10,800 people worked in Hutchinson, and 6,800 workers lived in Hutchinson. As a result, employees who commute to Hutchinson will be contributors to retail sales, especially restaurants. Many restaurants rely on daytime population for their lunch business and the local population for their dinner business.

TABLE R-3
DAYTIME POPULATION
CITY OF HUTCHINSON
2000

	Total Employees Working in Hutchinson	Total Workers Living in Hutchinson	Work Here/ Live Here Ratio
Hutchinson	**10,820**	**6,803**	**1.59**

Sources: Census Bureau, Maxfield Research Inc.

Table R-4 shows commuter patterns to and from Hutchinson based on data obtained from the 2000 Census. The data shows the work destinations for persons who live in Hutchinson, as well as where employees live who are employed in Hutchinson. The following bullets summarize commuting patterns based from the latest census.

- As illustrated in the table, there is a large influx of workers into Hutchinson. In 2000, there were an estimated 10,820 workers, of which over one-half commuted to Hutchinson from other communities for their employment.

- Approximately 75% of Hutchinson residents also work in Hutchinson, while 87% of Hutchinson's residents work in McLeod County

- McLeod County residents account for 73% of all employees in Hutchinson. Over 1,500 persons employed in Hutchinson reside in Meeker County.

TABLE R-4
HUTCHINSON COMMUTING PATTERNS
2000

Place of Residence	Place of Employment	Count	Percent
Place of Employment for Hutchinson Residences			
Hutchinson	Hutchinson	5,174	76.1%
Hutchinson	Other McLeod County	713	10.5%
Hutchinson	Hennepin Cty.	301	4.4%
Hutchinson	Meeker Cty.	155	2.3%
Hutchinson	Wright Cty.	115	1.7%
Hutchinson	Carver Cty.	52	0.8%
Hutchinson	Stearns Cty.	48	0.7%
Hutchinson	Ramsey Cty.	47	0.7%
Hutchinson	Sibley Cty.	27	0.4%
Hutchinson	Other	171	2.5%
		6,803	100.0%
Place of Residence for Workers Commuting to Hutchinson			
Hutchinson	Hutchinson	5,174	47.8%
Other McLeod County	Hutchinson	2,672	24.7%
Meeker Cty.	Hutchinson	1,518	14.0%
Wright Cty.	Hutchinson	240	2.2%
Sibley Cty.	Hutchinson	222	2.1%
Hennepin Cty.	Hutchinson	145	1.3%
Stearns Cty.	Hutchinson	97	0.9%
Carver Cty.	Hutchinson	90	0.8%
Other	Hutchinson	656	6.1%
		10,814	100.0%

Sources: US Census Bureau
Maxfield Research Inc.

Categories of Goods

Retail goods are usually divided into three categories of goods: neighborhood, shopping and specialty goods. Neighborhood (convenience) goods are those that are bought frequently and are therefore usually purchased where it is most convenient to buy them, usually near home or work (food, personal care goods and services, pharmaceuticals, alcoholic beverages). Shopping goods are those that shoppers will take more care and spend greater effort to purchase and for which they prefer to have a comparative selection so that quality, types and price can be compared. Specialty goods are those for which shoppers expend the greatest effort and for which there is little competition (unique goods or items for which there are few substitutes or alternatives). The draw area for shopping, and therefore, its size, is affected by the availability of such goods.

Retail Sales Growth

Tables R-5 shows retail sales for Hutchinson in 2003, 2004, and 2005. The sales information is from the Minnesota Department of Revenue, Tax Research Division. This information on the growth of retail sales, by product type, provides a picture of the economic growth and composition of the area's retail sales market over the three years. The following are key characteristics of the retail market.

- Between 2003 and 2005, Hutchinson's retail sales increased by 2.7%, resulting in approximately $300 million in gross retail sales.
- Total gross sales in Hutchinson were estimated at $607.1 million in 2005.
- Table R-3 shows that General Merchandise accounted for $91.3 million of Hutchinson's retail sales in 2005, or 31%. General Merchandise stores are capable of retailing a large variety of goods from a single store and include retailers such as Target, Wal-Mart, and Shopko.

TABLE R-5
RETAIL SALES BY INDUSTRY
HUTCHINSON
2003 to 2005

NAICS		Gross Retail Sales			Change 2003-2005	
Code	Retail Industries	2003	2004	2005	No.	Pct.
441	Vehicles, Parts	$27,408,541	$31,376,932	$17,579,664	-$9,828,877	-35.9%
442	Furniture Stores	$4,514,534	$6,498,484	$5,943,244	$1,428,710	31.6%
443	Electronics	$8,196,680	$11,545,359	$10,937,470	$2,740,790	33.4%
444	Building Material	$50,693,328	$52,358,385	$46,879,716	-$3,813,612	-7.5%
445	Food Beverage Store	$51,838,399	$52,890,902	$54,010,408	$2,172,009	4.2%
446	Health, Personal	$5,785,778	$6,105,990	$7,913,762	$2,127,984	36.8%
447	Gasoline Stations	$18,371,436	$21,731,686	$25,521,972	$7,150,536	38.9%
448	Clothing, Accessory	$4,084,669	$3,624,996	$3,389,968	-$694,701	-17.0%
451	Leisure Goods	$3,673,254	$2,765,762	$2,112,181	-$1,561,073	-42.5%
452	General Merchandise	$85,215,676	$90,251,425	$91,354,946	$6,139,270	7.2%
453	Misc. Store Retailer	$10,110,485	$9,981,103	$10,088,024	-$22,461	-0.2%
454	Non-Store Retailer	$3,043,401	$3,718,308	$3,777,224	$733,823	24.1%
722	Food Serv, Drinking Places	$18,722,086	$18,904,821	$20,016,884	$1,294,798	6.9%
	Subtotal	$291,658,267	$311,754,153	$299,525,463	$7,867,196	2.7%

* Sales & tax data are suppressed when there are fewer than four businesses in any given industry code.

Sources: MN Dept. of Revenue: Tax Research Division
Maxfield Research Inc.

Consumer Expenditure Patterns

Tables R-6 and R-7 show consumer expenditures for retail goods and services in the Retail Market Area in 2006 and 2011, according to data obtained from Claritas, Inc. This data is used to calculate demand for retail space, based on projected population growth in the area and the resulting growth in consumer expenditures.

The following are key points from the consumer expenditure data.

- Market Area consumers are projected to spend $1.13 billion in 2006 on the retail goods and services shown in Table R-6 (this excludes housing, insurance, health care, and education). Average annual expenditures were estimated to be about $39,800 per household and $15,500 per capita in the Market Area.

- Of the 26 categories of retail items in Tables R-6 and R-7, 15 are neighborhood goods and services. They are a mix of goods that would mostly serve the local population (people living in the Market Area) and employees at businesses in Hutchinson. These 15 categories are bolded in the tables. The expenditures in 2006 for these neighborhood goods from the Market Area were approximately $21,800 per household and $8,470 per capita.

- The two categories accounting for the greatest percentage of consumer expenditures are *Food at Home* (groceries) and *Food Away from Home* (restaurants), both of which are neighborhood retail goods. Food at Home or grocery accounts for 14% of household expenditures while Food Away from Home accounts for 12% of household expenditures.

- According to Claritas Inc.'s "Market Index," the average household expenditure in 2006 for most items by Market Area residents was lower than the Twin Cities Metro average, as indicated by an overall market index of 0.91 (residents in the Hutchinson Market Area spent 9% less on consumer goods than the metro average).

TABLE R-6
HOUSEHOLD EXPENDITURES BY SELECTED PRODUCT TYPE
HUTCHINSON RETAIL MARKET AREA
2006

	Annual Expenditures			
Category	Total ($000's)	Average Per HH	Average Per Capita	Market Index to Metro
Food at Home	**163,848**	**5,617**	**2,184**	**0.97**
Food Away from Home	**136,720**	**4,687**	**1,822**	**0.87**
Alcoholic Beverages at Home	**25,057**	**859**	**334**	**0.88**
Alcoholic Beverages away from Home	**11,464**	**393**	**153**	**0.82**
Personal Care Products	**27,303**	**936**	**364**	**0.88**
Personal Expenses and Services	**45,972**	**1,576**	**613**	**0.83**
Smoking Prods/Supplies	**31,241**	**1,071**	**416**	**1.17**
Prescription Drugs	**65,895**	**2,259**	**878**	**1.07**
Day Care	**8,488**	**291**	**113**	**0.80**
Apparel	*115,630*	*3,964*	*1,542*	0.77
Housekeeping Supplies	**10,326**	**354**	**138**	**0.95**
Household Textiles	*15,606*	*535*	*208*	0.76
Furniture	*22,023*	*755*	*294*	0.82
Major Appliances	*10,180*	*349*	*136*	0.91
Small Appliances/Houseware	**20,390**	**699**	**272**	**0.82**
Misc. Household Equip.	**17,210**	**590**	**229**	**0.89**
TV, Radio & Sound Equipment	*51,573*	*1,768*	*688*	0.84
Sports and Recreation	**40,225**	**1,379**	**536**	**0.76**
Reading Materials	**16,102**	**552**	**215**	**0.81**
Travel	*39,700*	*1,361*	*529*	0.75
Photographic Equipment	*3,763*	*129*	*50*	0.80
Pet Expenses	**15,314**	**525**	**204**	**1.01**
Cars and Trucks - New	90,310	3,096	1,204	0.88
Cars and Trucks - Used	73,625	2,524	981	1.10
Gasoline and Motor Oil	52,098	1,786	695	1.07
Vehicle Maintenance/Repair	51,427	1,763	686	0.97
Total	***1,161,491***	***39,818***	***15,484***	***0.91***
Neighborhood Goods & Services	**635,556**	**21,788**	**8,471**	
Shopping/Specialty Goods & Services	***258,475***	***8,861***	***3,447***	

Bold items reflect neighborhood-oriented goods and services
Italicized items reflect shopping/specialty-oriented goods and services

Sources: Claritas, Inc.
Maxfield Research Inc.

TABLE R-7
HOUSEHOLD EXPENDITURES BY SELECTED PRODUCT TYPE
HUTCHINSON RETAIL MARKET AREA
2011

Category	Annual Expenditures Total ($000's)	Average Per HH	Average Per Capita	Market Index to Metro
Food at Home	**185,726**	**6,103**	**2,390**	**0.97**
Food Away from Home	**165,946**	**5,453**	**2,135**	**0.88**
Alcoholic Beverages at Home	**29,671**	**975**	**382**	**0.89**
Alcoholic Beverages away from Home	**13,907**	**457**	**179**	**0.83**
Personal Care Products	**34,936**	**1,148**	**449**	**0.88**
Personal Expenses and Services	**59,373**	**1,951**	**764**	**0.81**
Smoking Prods/Supplies	**36,579**	**1,202**	**471**	**1.20**
Prescription Drugs	**105,447**	**3,465**	**1,357**	**1.05**
Day Care	**10,256**	**337**	**132**	**0.79**
Apparel	*139,835*	*4,595*	*1,799*	0.78
Housekeeping Supplies	**13,116**	**431**	**169**	**0.95**
Household Textiles	*18,350*	*603*	*259*	0.70
Furniture	*27,815*	*914*	*358*	0.82
Major Appliances	*11,777*	*387*	*152*	0.91
Small Appliances/Houseware	**24,528**	**806**	**315**	**0.82**
Misc. Household Equip.	**22,033**	**724**	**283**	**0.90**
TV, Radio & Sound Equipment	*68,776*	*2,260*	*885*	0.85
Sports and Recreation	**52,800**	**1,735**	**679**	**0.77**
Reading Materials	**17,225**	**566**	**222**	**0.81**
Travel	*51,826*	*1,703*	*667*	0.75
Photographic Equipment	*4,108*	*135*	*53*	0.82
Pet Expenses	**19,294**	**634**	**248**	**0.98**
Cars and Trucks - New	106,177	3,489	1,366	0.89
Cars and Trucks - Used	95,709	3,145	1,231	1.12
Gasoline and Motor Oil	75,015	2,465	965	0.88
Vehicle Maintenance/Repair	69,385	2,280	893	0.97
Total	***1,459,610***	***47,963***	***18,803***	***0.91***
Neighborhood Goods & Services	**790,836**	**25,987**	**10,175**	
Shopping/Specialty Goods & Services	***322,488***	***10,597***	***4,173***	

Bold items reflect neighborhood-oriented goods and services
Italicized items reflect shopping/specialty-oriented goods and services

Sources: Claritas, Inc.
Maxfield Research Inc.

Projected Demand for Retail Space

Earlier sections studied shopping patterns and factors that influence the demand for retail space in the Hutchinson Retail Market Area, such as population growth and consumer expenditure trends, and available retail space. Table R-8 calculates the amount of retail space (gross leasable area in square feet) supportable within the draw area from household growth alone.

The figures used for the calculations reflect the amount of dollars spent on consumer goods and services (from consumer expenditure reports from Claritas, Inc.) and the estimated median sales per square foot for neighborhood retail centers (from Dollars and Cents of Shopping Centers, Urban Land Institute).

However, based on the large concentration of retail space in Hutchinson, Market Area retailers are able to draw from a large trade area. As a result, the Market Area consumer expenditures are significantly higher than what the local Market Area can support alone, resulting in a positive leakage factor. A positive leakage factor compares a local markets retail sales compared to a benchmark, in this case the Metro Area. A positive leakage factor indicates an area is bringing in shoppers and dollars into the Market Area. Based on retail sales data from the Minnesota Department of Revenue, we estimate the Market Area is capturing an additional 67% of total retail expenditures by both Market Area and non-Market Area households in 2005.

Due to increased retail space in communities such as Litchfield and Glencoe, we estimate that positive leakage would gradually decrease over the next ten-years.

Table R-8 calculates demand for retail space in the Hutchinson Retail Market Area, generally, and at specifically in the City of Hutchinson. The following bullet points summarize our demand calculations presented in Table R-8.

- Table R-6 shows total Market Area households of approximately 29,200 in 2006. Based on our analysis of consumer expenditure data, we estimate that consumer expenditures for the types of neighborhood and specialty goods and services that could be purchased in the Market Area are $39,800 per household.

- Multiplying the consumer expenditure figure by the number of households results in total retail sales of $1.16 billion. However, after factoring for a positive leakage factor of retail dollars spent by non- Market Area residents to centers inside of the Market Area at 67%, the total demand in the Market Area is increased to $1.9 billion.

TABLE R-8
DEMAND FOR RETAIL SPACE
HUTCHINSON RETAIL MARKET AREA
2006 to 2020

		2006	2011	2020
Market Area Purchasing Power				
Market Area Households		29,170	30,432	33,485
(times) Annual Household Retail Expenditures[1]	x	$39,818	$47,963	$60,228
(equals) Total Market Area Expenditures	=	$1,161,491,060	$1,459,610,016	$2,016,734,580
Approx. % Leakage Outside the Market Area [2]		-67%	-60%	-60%
(minus) Leakage Outside of Market Area	-	-$778,199,010	-$875,766,010	-$1,210,040,748
(equals) Total Purchasing Power	=	$1,939,690,070	$2,335,376,026	$3,226,775,328
(divided by) Average sales per Sq. Ft.[3]	/	$300	$339	$424
(equals) Total Retail Space Demand (Sq. Ft.)	**=**	**6,465,634**	**6,880,440**	**7,612,256**
Retail Demand Potential				
			2006 to 2011	**2011 to 2020**
Retail Space Demand Growth			414,807	731,815
(times) Amount Capturable in Hutchinson	x		50%	40%
(equals) Amount of Retail Demand in Hutchinson	=		207,403	292,726
(times) Pct. of demand capturable in Highway 7 Corridor	x		20%	20%
(equals) Estimated retail demand in Highway 7 Corridor	=		**41,481**	**58,545**

[1] Includes Auto Dealers
[2] Leakage is equal to the estimated amount of retail dollars spent outside the Market Area.
[3] From Dollars and Cents of Shopping Centers, Urban Land Institute -- adjusted by Maxfield Reseach Inc.

Sources: Claritas;
Dollars and Cents of Shopping Centers, Urban Land Institute;
Maxfield Research Inc.

- Utilizing average sales per square foot from *Dollars and Cents of Shopping Centers* and adjusted to account for location factors by Maxfield Research, we divide the average sales per square foot of retail space to calculate total demand for retail space. The growth shows Market Area demand for about 415,000 square feet of retail space between 2006 and 2001 and 256,000 square feet between 2011 and 2020.

- No one site can capture 100% of the demand as the property in Hutchinson will compete with other areas in the Market Area for new retail stores over this period. We estimate that Hutchinson would be able capture 50% of the retail demand, or about 207,400 square feet between 2006 and 2011.

- We estimate that between 2011 and 2020, Hutchinson's positive leakage would decrease to 60%, as additional retail will be developed in cities on the fringe of the Market Area (such as Willmar, New Ulm, etc.) As a result, we estimate Hutchinson can support an additional 292,000 square feet of retail between 2011 and 2020.

- Finally, we estimate that the Highway 7 Corridor could capture 20% of Hutchinson's retail demand between 2006 and 2020. This results in demand for about 41,500 square feet of retail between 2006 and 2011 and 58,500 square feet of retail between 2011 and 2020.

Planned and Pending Retail Developments

According to the City of Hutchinson, there are no new planned retail developments in Hutchinson at this time.

Selected Commercial Building Resales

Maxfield Research Inc. collected information on selected commercial building resales in Hutchinson between 2004 and 2007. Table R-9 lists the building name and location, sold date, square feet, sales price, price per square foot, and any additional comments. The data was obtained from the Regional Multiple Listing Service of Minnesota. Key points from Table R-9 follow.

- Among the 14 profiled commercial buildings, five are located with Highway 7 frontage and another five are located with Main Street frontage (Highway 15).

- Sales prices ranged from $112,500 to $920,000, with an average and median sales price of $321,000 and $315,000 respectively.

- The average sold price per square foot averaged $55 for all inventoried commercial business types. However, the price per square foot varies considerably based on real estate product use, location, and property size. Industrial/warehouse space averaged about $50 per square foot, while retail and office averaged $63 and $78 respectively.

- A new project located in the Highway 7 Corridor would likely need to have rents higher than most existing businesses in the area because of the costs of land acquisition, development, and financing. New businesses need to be willing to pay higher rents in exchange for a new development that is able to attract and retain customers.

TABLE R-9
SAMPLING OF COMMERCIAL BUILDINGS SOLD
CITY OF HUTCHINSON
2004 to 2007

Building Name / Address	Property Type	Year Built	Sold Date	Square Feet	Sales Price	Price/ S.F.	Comments
Peterson Paulsen Real Estate 113 Main St. S.	Commercial/ Business Service	1915	3/31/2004	1,540	$115,000	$75	DT Hutchinson. Six offices, conference room, reception area, 1/2 bath, full basement
Chiropracter Building 35 2nd Ave. SW	Commercial/ Business Service	1920	7/26/2005	1,708	$112,500	$66	Full basement, two units, 40 x 48 lot size
261 3rd Ave. NW	Commerical/ Warehouse	1975	7/29/2004	4,000	$150,000	$38	Portion of building is cold storage and heated storage
20641 Highway 7	Commercial/ Office	1995	3/22/2004	2,000	$163,000	$82	Landscape business with 5 offices and 2 separate entrances. Outside of City limits and located on 25 acres. On Luce Line Trail w/Crow River frontage
Anderson's Decorating Ctr. 119 Main St. S.	Commercial/ Retail	N/A	3/16/2007	3,960	$195,000	$49	Main Street Retail. Parking behind building, Partial basement, 36 x 132 lot size
Aubony Bridal Inc. 23 Main St. N.	Commerical/ Retail	1905	12/29/2005	2,772	$275,000	$99	Main Street Retail, 22 x 132 lot size, building sold with inventory
50 Main St. S.	Commercial/ Retail	1896	10/3/2005	5,000	$326,000	$65	Main Street Retail, Updated building w/ high ceilings, HWD floors, brick exterior, 50 x 132 lot size, Two units
45 Library Square	Commercial/ Business Service	1888	10/26/2004	4,769	$305,000	$64	Across from Library Square and next to State Theatre, Three units on the first-floor only.
735 & 745 Highway 7	Commerical/ Warehouse/Office/ Auto	1967	2/15/2006	7,547	$332,500	$44	Two buildings included in sale (2294 s.f. & 5,250 s.f.) Highway 7 frontage. Lot size 240 x 300
805 Highway 7 W.	Commercial/ Warehouse/Office	1997	2/15/2005	5,520	$352,500	$64	Highway 7 frontage, heated warehouse space with office and reception areas. One-acre site.
Budget Motel 700 Highway 7 E.	Commercial/ Hospitality	1960	11/28/2005	7,200	$406,850	$57	Motel with 21 guest rooms and two studio apartments, Highway 7 frontage, 196 x 382 lot size
16491 Highway 7	Industrial/ Warehouse	2004	3/29/2006	7,350	$362,000	$49	Highway 7 frontage outside of City limits. Warehouse and office/showroom space. 4.8 acre site
126 Franklin St. NW	Commercial/ Office	1956	10/24/2006	4,764	$480,000	$101	Office building near Downtown and the Crow River, property is situated on 5 city lots and is 132 x 315
101 Main Street S.	Commericial/ Office/Restaurant	1984	12/20/2005	23,000	$920,000	$40	Main Street frontage & across from Library Park. Multiple tenants, including basement restaurant use, lot size is 66 x 132

Sources: Regional Multiple Listing Service of MN
Maxfield Research, Inc.

Commercial Land For-Sale

Table R-10 identifies selected commercial land that is actively marketing in Hutchinson. The table includes information on the property location, lot size (gross and net), zoning, list price, price per acre/foot, and any additional comments. Key points follow.

- Four of the five commercial land properties are located in the City of Hutchinson, while one property is located just outside of the City limits and has Highway 7 frontage.

- Commercial land marketing in Hutchinson ranges from approximately $139,000 to $479,000 per acre, or $3.49 to $11.000 per square foot. Combined, the average price per acre is $196,160, or $4.50 per square foot.

- The property in the northwest quadrant of Highway 7 and Highway 15 is one of the key areas for future redevelopment in the Highway 7 Corridor Study Area. The 3.16 acre site includes a few single-family homes abutting Highway 7 and vacant land where the former gas station was removed. The listing price on this property is approximately $1.5 million, or about $11 per square foot, the highest in Hutchinson.

- The former truck-stop on Highway 7 and Shady Ridge Road has been removed and the property has been abated. As such, the 2.2-acre commercial property is marketing and is listed for sale for $345,000, or $3.50 per square foot. The property has 400 feet of frontage on Highway 7.

TABLE R-10
COMMERCIAL LAND ACTIVELY MARKETING
CITY OF HUTCHINSON
June 2007

Property Location	Lot Size (Acres)	Net Acres Developable	Zoning	List Price	Price/ Acre	Price/S.F. Net	Comments
SW of Edmondton & Hwy. 15	1.03	1.03	C-4	$359,000	$348,544	$8.00	Corner intersection SW of Edmondton & Hwy. 15. Near Target and across from Menards and Culvers
NW of Co. Rd. 8 & Hwy. 15	34	29	C-4	$4,737,150	$139,328	$3.75	Site has frontage on Highway 15 and Co. Rd. 8. Property surrounds Target and is located across from Menards. Property also nearly abuts Wal-Mart and the Cty. Fairgrounds
NW of Hwy 7 & 15	3.16	3.16	C-2 & R-2	$1,514,700	$479,335	$11.00	NW quadrant of Highways 7 & 15. Property includes former gas station and 2 residential homes.
Highway 7 East	131	129	Ag.	$1,050,000	$8,140	$0.19	About 1,300 ft. of frontage on Hwy. 7. Property abuts Luce Line Trail. Outside of Hutchinson City limits.
1285 Hwy. 7 West	2.27	2.27	R-2/C-4	$344,900	$151,938	$3.49	Former truck-stop site. Building has been removed and lot has been leveled and abated.

Sources: Regional Multiple Listing Service of Minnesota, MNCAR
Maxfield Research, Inc.

Commercial Buildings Actively Marketing

Maxfield Research Inc. collected information on selected for-sale and for-lease commercial properties in Hutchinson. Table R-11 lists the commercial properties surveyed with information on property type, year built, total space and square feet available, lease rates/list price, and the center's tenant mix. The data reflects the most current pricing available from the Minnesota Commercial Association of Realtors and/or property brochures from the listing real estate company. Key points from Table R-11 follow.

- Overall, the eight selected commercial developments combine for about 433,500 square feet and have a combined 151,200 square feet vacant. This results in a vacancy rate of 45%. However 56% of the vacant space is within the County Fair Marketplace development and another 36% is within the Hutchinson Mall.

- County Fair Marketplace was developed by Ryan Companies and featured a number of anchor tenants and free-standing pad sites. When initially developed, Cub Foods and Office Max occupied 60,200 and 23,600 square feet respectively. However, both buildings are currently vacant and Target (123,000 square feet) is the only original anchor still in business. Although the two large spaces are available for lease, all of the pad sites have been developed.

- A new project within the Highway 7 Corridor Study Area would likely need to have rents higher than most existing commercial businesses along Highway 7 because of the redevelopment costs of land acquisition, development, and financing. Rents for a new retail business would likely command rents like those at other newer developments such as Cornerstone Commons or County Fair Marketplace. New businesses need to be willing to pay higher rents in exchange for a new development that is able to attract and retain customers.

- It is important to keep in mind that per square foot rental rates can vary greatly, even within the same retail center, with anchor tenants typically paying lower per square foot rents compared to small retailers. Small retailers often benefit from being located close to larger anchor tenants because of the customer traffic they generate. Furthermore, shopping center owners lease large blocks of space to anchor tenants at a lower rental rate, since their presence helps to market and generate higher rents for smaller spaces. Generally, the low end of the median rent range shown in reflects rents paid by larger anchor tenants, while higher rents are those paid by in-line retailers. Typically, fast-food restaurants pay the highest rates among shopping centers.

TABLE R-11
COMMERCIAL BUILDINGS/SPACES FOR SALE & FOR LEASE
CITY OF HUTCHINSON
June 2007

Center Name / Address	Property Type	Year Built	Total Space	Avail Space	Vac. Rate	Lease Rate/ List Price	Summary of Tenants
County Fair Marketplace 1370 Highway 15	Retail + Power Center	1999	60,208	60,208	100.0%	$7.50 (NNN)	Former Cub Foods building. Divisible into spaces of 12,000 square feet or more.
County Fair Marketplace 1310 Highway 15	Retail - Strip	1999	9,880	1,286	13.0%	$16 (Net)	Papa Murphy Pizza, Subway, Great Clips, Help-U-Sell Real Estate, Shiny Nails, Blade Photo, Midwest Wireless
County Fair Marketplace	Retail - Power Center	--	26,000	26,000	100.0%	$15 - $20 (NNN)	Vacant land located between Office Max and the former Cub Foods building
County Fair Marketplace 1354 Highway 15	Retail - Power Center	1999	23,600	23,600	100.0%	$11 (Net), or $3,000,000 Sales Price	Former Office Max Building. Common wall shared with Target
Checker Auto Parts 1380 Highway 15	Automotive Parts	--	7,000	7,000	0.0%	$1,050,000	Freestanding Checker Auto Parts. Four-years remaining on lease
Cornerstone Commons 114 Main St. N.	Neighborhood Center	2005	22,284	5,336	23.9%	$10 - $15 (NNN)	Dunn Brothers, Snap Fitness, Quizno's
720 Century Ave. SW	Office Condo	1997	420	420	100.0%	$88,900	Clock Tower building
Hutchinson Mall	Retail - Mall	1981	284,115	70,000 *	24.6%	Variable	Anchored by JCPenney, Hennen's Furniture, & Joann Fabrics. Hennan's furniture is not owned by Mall and is excluded from vacancy factor
Total			**433,507**	**193,850**	**44.7%**		

* Hennann's Furniture is excluded from vacancy factor for the Hutchinson Mall

Sources: MNCAR, Property Brochures
Maxfield Research, Inc.

Interviews with Market Area Commercial Realtors

Maxfield Research, Inc. interviewed real estate leasing agents and other persons familiar with commercial real estate in Hutchinson to solicit their impressions of the commercial market in Hutchinson. The following are key points derived from these interviews.

- Most commercial business owners in Hutchinson prefer to own rather than lease their space. Many of these business owners have a great deal invested into their business and their building is their only sense of real equity. The majority of buildings sell between $135,000 and $180,000.

- Some investors have purchased buildings in Downtown Hutchinson for lease have had trouble finding tenants. This is partly a result of many business owners preferring to own their building versus leasing.

- The two "featured" buildings with leasable space in Hutchinson are Park Place and the new Cornerstone Commons building.

- According to some real estate professionals, Hutchinson could use more buildings like the recently completed Cornerstone Commons. Most interviewees agree the building is very attractive and they hope the building will succeed with the higher lease rates in Downtown.

- Businesses through Downtown Hutchinson seem to be doing rather well at this time. Although there are a few vacant buildings on Main Street, the overall Downtown business community has been rather healthy.

- Although a mixed-use building with housing may be "ahead of its time" right now in Hutchinson, interviewees believe a mixed-use development could succeed as Hutchinson continues to grow.

- Interviewees agreed that Hutchinson lacks a more formal sit-down restaurant. However, some commercial Realtors feel a new restaurant will only be successful if the average meal price is approximately $15 or less per person. It is also recommended a new restaurant have the ability to sell alcoholic beverages. Access and visibility will be key to the success of a sit-down restaurant in Hutchinson.

- The commercial real estate market has been slow this year in Hutchinson, as fewer businesses have been looking for sites in Hutchinson. In general, many interviewees believe Hutchinson's commercial market is depressed at this time, especially on the south end of town.

- Retailers especially will prefer to locate along the commercial corridors where visibility and accessibility are high. As such, many national chains and big box retailers will prefer to locate along Highway 15 in southern Hutchinson in close proximity to other retailers.

- Future development along Highway 7 may have access issues to meet MNDOT's requirements for ingress/egress access along the Highway. As a result, access could be a deterrent for development of certain sites in the corridor.

- The market for leasing new commercial space in Hutchinson ranges from $12 to $16 per square foot.

- There is concern among real estate professionals regarding the empty store fronts from the former Cub Foods and Office Max buildings on Highway 15, resulting in little activity among the projected anchor tenants in the County Fair Marketplace development. Some interviewees are concerned that Target is not reaching its desired sales as they have suffered from the lack of activity in the retail development.

- Some commercial Realtors are concerned about the emerging presence of retail in Willmar that could take some consumers from Hutchinson to Willmar. Willmar has recently added new big box retailers such as Best Buy, Home Depot, and Menards.

- Commercial businesses will continue to look for sites to develop along either Highway 7 or Highway 15 with good access and traffic counts.

Introduction

This section of the report calculates the potential for new office development in the Highway 7 Corridor Area by examining employment and business growth trends, office market conditions, and the existing supply of office space in the Hutchinson Market Area.

Employment and Business Growth

Overall Employment Growth

Table O-1 shows the estimated percentage of total employment that would occupy office space. The figures were compiled by Maxfield Research, based on data from the Minnesota Department of Trade and Economic Development and the Census Bureau.

The following are key points from Tables O-1.

- Table O-1 shows that in 1990, 9% of the jobs in Hutchinson were estimated to be jobs that required office space, or 850 jobs. That percentage increased to 12% in 2000, for an estimated 1,300 office jobs. The proportion of office jobs to all employment is expected to remain steady between 2006 and 2015, at about 14%. The result is that Hutchinson is projected to add 650 office jobs between 2000 and 2010.

TABLE O-1
OFFICE JOB GROWTH TRENDS AND PROJECTIONS
HUTCHINSON
1990 to 2015

	Census		Projection			Change			
						1990 to 2000		2000 to 2010	
	1990	2000	2006	2010	2015	No.	Pct.	No.	Pct.
Total Jobs	8,993	10,533	11,175	11,585	12,200	1,540	17.1%	642	6.1%
Office Jobs*	850	1,300	1,550	1,625	1,675	450	52.9%	250	19.2%
% office jobs	*9%*	*12%*	*14%*	*14%*	*14%*	--	--	--	--

*Office jobs include jobs primarily in the FIRE and Government Sectors and a portion of the Services Sector.

Sources: DEED: Quarterly Census of Employment and Wages
Bureau of the Census: County Business Patterns
Maxfield Research Inc.

- We utilize the industry standard of approximately 200 square feet per employee to determine total projected office space demand. Therefore, the addition of 640 office jobs between 2000 and 2010 would result in an estimated 128,000 square feet of office space needed to accommodate these new employees. The actual amount of office space needed, however, would likely be less, because a portion of the office jobs would be from people working from home offices and some typical office users will choose to locate in retail space.

Growth of Businesses that Primarily Occupy Office Space

Table O-2 shows the number of businesses by size of business (number of employees) in the industry sectors (NAICS) that are typical office users in Hutchinson. These include Information and Education; Finance & Insurance; Real Estate, Rental & Leasing; Professional, Scientific, & Technical Services; Management of Companies & Enterprises; and Health Care & Social Assistance. The data is for Zip Code 55350 only.

The data in Table O-2 is for 2004, the most current year available, and is from the U.S. Department of Commerce; County Business Patterns. Business 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 follow are key points from Table O-2.

- The six business categories in Table O-2 contain a total of 165 businesses, with most (43, or 27%) being in the Professional, Scientific and Technical Services category. About 73% of Professional, Scientific and Technical Services businesses had fewer than five employees.

- Of the 165 businesses in Table O-2, 56% had fewer than five employees, 39% had between five and 49 employees, and only 4.2% had 50 or more employees. Based on this information, it appears that the majority of office users in the area require small spaces. Assuming that office employees occupy an average of 200 square feet of office space (including common areas), many companies in the area would need 1,000 to 1,500 square feet or less, and only a few would need more than 4,000 square feet.

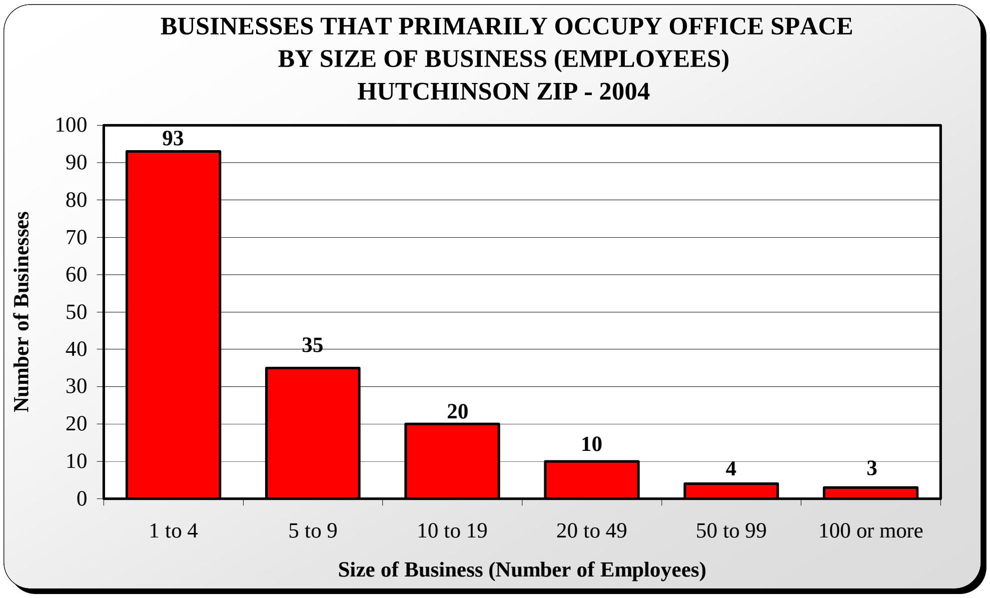
- If these small businesses average 2.5 people per business, they would need an average of about 500 square feet of office space, based on 200 square feet per person. Some of these small businesses are likely to be located in home offices and if available would likely locate in office suites.

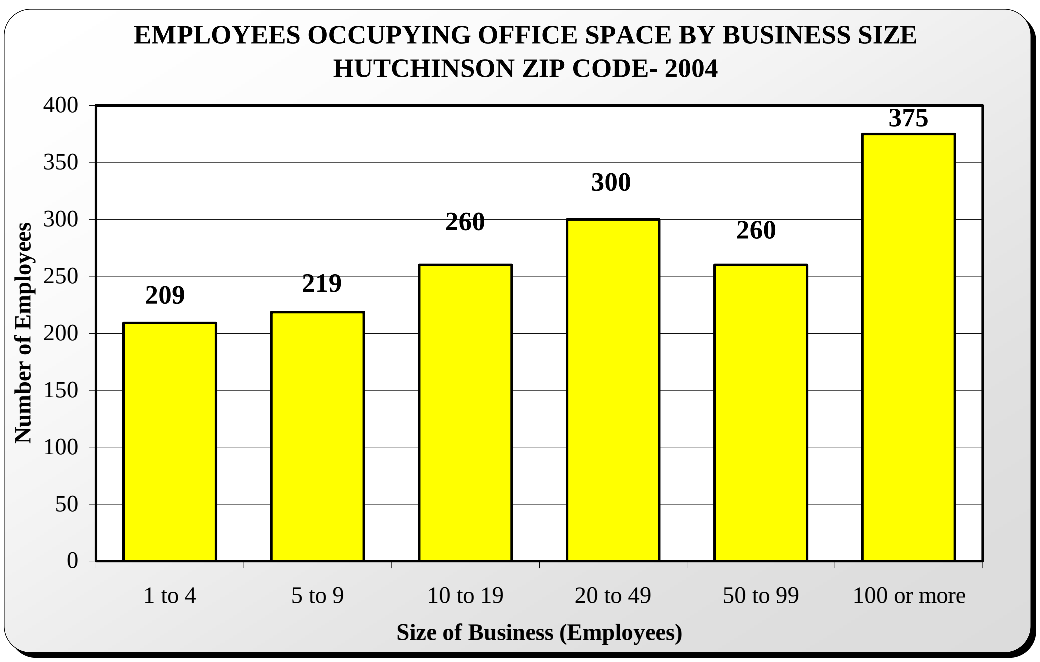
- Although about 78% of businesses have fewer than 10 employees, businesses with fewer than 10 employees account for only about 26% of the total employees. The following charts highlight this. The charts on the following pages show that businesses with 20 or more employees accounted for only 10.3% of the total businesses, but approximately 58% of the total employees.

TABLE O-2
BUSINESSES BY INDUSTRY AND SIZE OF BUSINESS
HUTCHINSON ZIP CODE 55350
2004

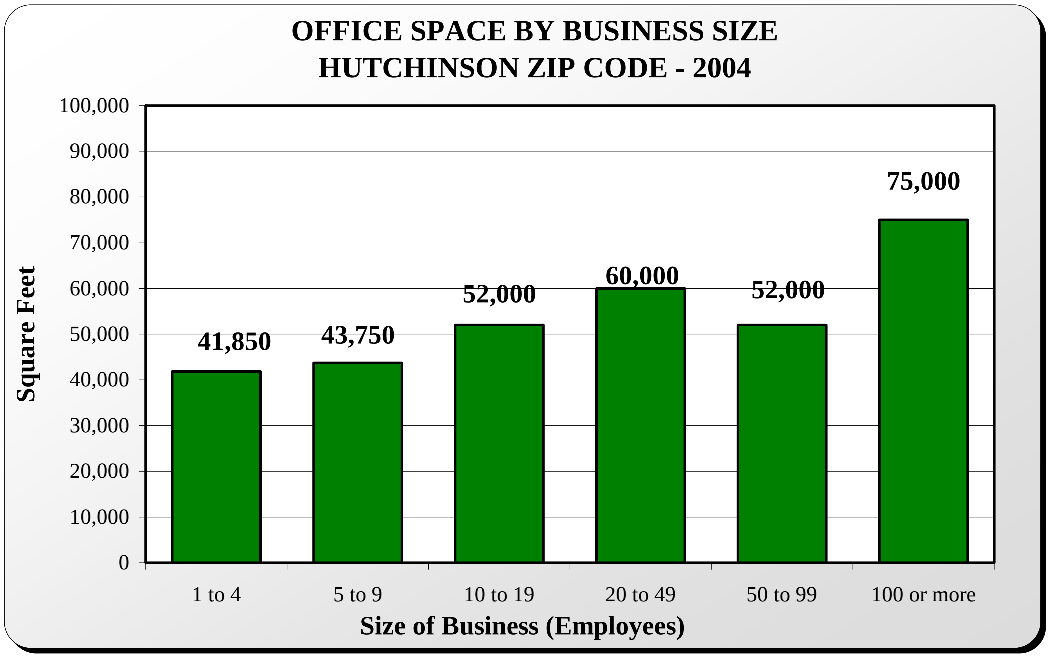
	Information		Finance & Insurance		Real Estate & Rental & Leasing		Prof., Scientific & Tech. Services		Mgmt of Companies & Enterprises		Health Care & Social Assistance		Total	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
1 to 4	1	16.7	27	75.0	13	72.2	33	73.3	0	0.0	19	31.7	93	56.4
5 to 9	2	33.3	6	16.7	5	27.8	7	15.6	0	0.0	15	25.0	35	21.2
10 to 19	1	16.7	1	2.8	0	0.0	4	8.9	0	0.0	14	23.3	20	12.1
20 to 49	2	33.3	1	2.8	0	0.0	1	2.2	0	0.0	6	10.0	10	6.1
50 to 99	0	0.0	1	2.8	0	0.0	0	0.0	0	0.0	3	5.0	4	2.4
100 to 249	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	2	3.3	2	1.2
250 or more	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	1.7	1	0.6
Total	***6***	*100.0*	***36***	*100.0*	***18***	*100.0*	***45***	*100.0*	***0***	*0.0*	***60***	*100.0*	***165***	*100.0*

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





- The chart below shows an estimate of the total amount of office space needed to accommodate the businesses. The figures assume that employees occupy an average of 200 square feet of office space. The chart shows that about 325,000 square feet is needed to accommodate all of the businesses. However, many of the businesses with between one and four employees are likely operated from private homes, thereby reducing total office needs to closer to 280,000 square feet.



- Based on 200 square feet of office space per employee, businesses with between five and nine employees (2 businesses) would require 1,000 to 1,800 square feet of office space, businesses with between 10 and 19 employees (6 businesses) would require 2,000 to 3,800 square feet, and businesses with 50 to 99 employees (3businesses) would require 10,000 to 19,800 square feet.

Current Office Market Situation in Hutchinson

The majority of businesses in Hutchinson office buildings serve households and businesses in Hutchinson and the surrounding communities. Typical officer uses include businesses such as finance, insurance, real estate, medical/dental, legal, and other service-related businesses. Additionally, the majority of businesses in Hutchinson prefer to own the building than lease. As a result, there are few multi-tenant office buildings located in Hutchinson. The major buildings in Hutchinson that are multi-tenant include the following: Park Place, Cornerstone Commons, Library Square, and the Clock Tower Building. All of these buildings are illustrated on either Tables R-10 or R-12, as located in *the Retail Market Analysis* section of the report.

Current office tenants leasing space in Hutchinson are paying net lease rates significantly lower than what new office space would command, such as office space at the new Cornerstone Commons. Net rents in most Hutchinson office buildings are well below $10 per square foot. A net lease is one in which there is a provision for the tenant to pay other charges such as property taxes, utilities, maintenance, etc. in addition to rent. However, a number of office users are under gross lease rents, those leases that include common area maintenance and property taxes in the stated rent.

Over the long-term, new office space along the Highway 7 Corridor would have the ability to capture some of the tenants that are currently in existing buildings that would prefer to locate in a newer facility with excellent access and visibility.

Planned and Pending Office Developments

Maxfield Research Inc. interviewed community development staff in Hutchinson to determine if any new office developments are under construction or planned in the community. At this time, there are no new office developments planned.

Projected Demand for Office Space

Earlier sections of the *Office Market Analysis* focused on factors that influence the demand for office space, including employment growth and current market conditions. The amount (in square feet) of additional office space supportable within the Highway 7 Corridor is based on projected office employment growth in Hutchinson. Our demand calculations are presented in Table O-3 and are summarized in the following bullet points.

- Hutchinson is projected to add 135 jobs that will require office space between 2007 and 2015. Our growth projection is based on the assumption that new office space will be constructed in Hutchinson to support business and employment growth.

TABLE O-3
PROJECTED DEMAND FOR LEASED OFFICE SPACE
HUTCHINSON
2007 to 2015

Demand from Projected Employment Growth			
Projected increase in office jobs in Hutchinson, 2007 to 2015		135	new jobs
(times) 200 square feet of office space per employee	x	200	sq. ft./employee
(equals) Projected demand in Hutchinson, 2007 to 2015	=	27,000	square feet
Demand from Existing Businesses			
Estimated number of Hutchinson FIRE and Service Sector firms (<10 emps), 2004		128	
(times) Percent of demand for new office space	x	15%	
(equals) Number of businesses that desire office space	=	19	
(times) Average number of employees per firm	x	3.25	
(equals) Estimated number of Hutchinson small business office jobs, 2004	=	62	
(times) 200 square feet of office space per employee	x	200	sq. ft./emp.
(equals) Estimated pent-up demand for office from existing businesses	=	12,480	sq. ft.
Total projected demand for office space in Hutchinson		**39,480**	sq. ft.
(minus) Proposed/Pendng office space in Hutchinson	-	0	
(equals) Estimated office space demand in Hutchinson, 2007 to 2015	=	39,480	square feet
(times) Percent of demand capturable within Highway 7 Corridor	x	50%	
(equals) Estimated office demand in Highway 7 Corridor	**=**	**19,740**	square feet

Source: Maxfield Research Inc.

- Using an industry standard of 200 square feet of office space per employee, on average, we project demand for 27,000 square feet of office space in Hutchinson between 2007 and 2015 to accommodate office employment growth. This figure assumes that a variety of office spaces in a variety of locations will be available to meet the needs of prospective tenants.

- We also calculated demand for office space that would come from existing small businesses that would relocate to new office space. We estimate that there are 128 small businesses (less than 10 employees) in the Hutchinson that are traditional occupiers of office space. Due to the general lack of new space, we estimate that pent-up demand among small businesses located in office space is 15%. This translates to 19 businesses, or roughly 62 employees, in the Hutchinson that could be accommodated by new office space.

- Again, using an industry standard of 200 square feet per office employee results in pent-up demand for about 39,500 square feet of new office space from existing businesses.

- As illustrated in the Planned and Pending section of this report, there is no new office development planned in Hutchinson at this time. Therefore, we do not subtract any pending space from the demand calculation.

- Adding together the projected demand from employment growth and estimated pent-up demand from existing businesses yields an overall unmet demand for approximately **40,000 square feet** of office space in the Hutchinson.

- We estimate that 50% of office demand in Hutchinson can be captured by office space in the Highway 7 Corridor, or about 20,000 square feet.

Introduction

The impetus for this study was to complete an analysis of the development potential within the Highway 7 Corridor in Hutchinson, Minnesota. Previous sections examined the demographic, economic, and competitive environment for housing, retail, and office uses in the respective Market Areas, including the proportion of demand that could be captured by new product in the Highway 7 Corridor. This section summarizes the market potential findings and makes recommendations based on the analysis, including the most appropriate product types, pricing achievable, development timeframe and the potential synergies that may be captured with different types of development in combination with each other.

Table CR-1 summarizes Market Area demand and the amount capturable in the Highway 7 Corridor for each of the aforementioned development components.

TABLE CR-1
SUMMARY OF DEMAND
HIGHWAY 7 CORRIDOR
JUNE 2007

Type of Use	**2007 to 2015**
Housing (Units)	
General-Occupancy	
For-Sale Multifamly Units	30 to 40
Rental Units	50 to 60
Total Housing Supportable	**80 to 100**
	2007 to 2015
Total Office Supportable (Sq. Ft.)	**20,000**
	2006 to 2020
Total Retail Supportable (Sq. Ft.)	**100,000**

Source: Maxfield Research Inc.

Highway 7 Corridor Strengths/Weaknesses

We identified key characteristics of the Highway 7 Corridor and classified them as strengths and weaknesses, as they pertain to the potential to support additional development opportunities.

Highway 7 Corridor primary <u>strengths</u> are as follows*:*

1. **Traffic Volume (Visibility).** Overall, Highway 7 through Hutchinson provides good traffic counts, access and visibility to many of the businesses along the corridor. According to MNDOT, traffic counts are expected to continue to increase reasonably through 2020 along Highway 7. Many potential businesses will be at-

tracted to the increased traffic counts as they rely on drive-by traffic and good highway access and visibility.

2. **Proximity to Natural Amenities**. The Highway 7 Corridor through Hutchinson runs parallel to the Luce Line Trail and the Crow River. Additionally, a number of parks and open spaces are located within the Corridor Study Area.

3. **Growing Residential Base.** Strong population and household growth in Hutchinson and the Market Area will increase the potential customer base of Hutchinson businesses.

4. **Highway 7 Road Improvements.** The continued expansion of Highway 7 to four-lanes will enable motorists to navigate through Hutchinson more efficiently.

Highway 7 Corridor primary weaknesses are as follows*:*

1. **Competition from Surrounding Developments.** While strong household growth is occurring in the Hutchinson Market Area, the majority of new national-tenant retail will prefer to locate near big-box retailers such as Target, Super Wal-Mart, and Menards on the south end of Hutchinson.

2. **Incompatible Adjacent Land Uses.** The Highway 7 Corridor through Hutchinson contains a wide variety of uses; from residential, commercial, to light-industrial and manufacturing. As such, many of these land uses are not compatible with the existing surrounding land uses.

3. **Limited Vacant Land.** The majority of property located along Highway 7 has been developed, thus most new development will result from redevelopment. Typically, the cost of redevelopment is higher than developing vacant land – resulting in higher lease rates for potential tenants unless the redevelopment receives public assistance.

4. **Highway 7 Perception.** Highway 7 through Hutchinson does not connotate the amenities and character that are available throughout Hutchinson. The transient motorist driving through Hutchinson will not acquire a true taste for the community based on a drive-thru on Highway 7.

5. **Downtown Hutchinson Connection.** Although Highway 7 intersects with Main Street, there is no synergy or connection with the Downtown. Transient motorists on Highway 7 are not compelled to stop and patronize the Downtown area.

Recommended Highway 7 Corridor Study Area Development Concept(s)

We assessed the Corridor's existing uses, physical characteristics/infrastructure, community orientation, traffic volumes and projected growth patterns. We find that the various sites within the Highway 7 Corridor will bode well for future redevelopment. Since there are a variety of real estate product types located in the Corridor, Table CR-2 shows a matrix for various land uses and their potential synergies with other uses. The chart provides a general guideline for mixing development types and the degree of compatibility with other real estate uses.

TABLE CR-2
POTENTIAL SYNERGIES AMONG USES
MIXED-USE DEVELOPMENTS

Real Estate Use	Degree of Support for and Synergy with other Uses
Office	
Residential	**
Hotel	*****
Retail/Entertainment	****
Cultural/Civic/Recreation	***
Residential	
Office	***
Hotel	***
Retail/Entertainment	****
Cultural/Civic/Recreation	*****
Hotel	
Office	*****
Residential	***
Retail/Entertainment	****
Cultural/Civic/Recreation	****
Retail/Entertainment	
Office	*****
Residential	*****
Hotel	*****
Cultural/Civic/Recreation	****
Cultural/Civic/Recreation	
Office	****
Residential	*****
Hotel	*****
Retail/Entertainment	***

* = Very weak or no synergy.
** = Weak synergy.
*** = Moderate synergy.
**** = Strong synergy.
***** = Very strong synergy.

Sources: Urban Land Institute, Maxfield Research, Inc.

Based on our analysis, the Highway 7 Corridor can support a variety of alternative real estate uses, including to some degree a mix of housing, retail, and office.

Housing Conclusions and Recommendations

This section presents our findings and recommendations for the Highway 7 Corridor based on the housing demand analysis, our knowledge of the housing market, and interviews with professionals experienced in the local housing market.   Our analysis of the housing market finds potential to for various housing types; both rental and for-sale. However, demand for different product types is not equal among all products, meaning that timing and scale will be important to ensure that the mix of housing offered within the Highway 7 Corridor will be well-received by the market.

Recommended Housing Types

We find demand for a variety of housing product for various household types. Although new single-family homes and detached townhomes continue be in demand in Hutchinson, we do not recommend these low-density product types due to the density needed for the sites located within the Highway 7 Corridor. We recommend a mix of higher-density housing that can maximize returns. Furthermore, the addition of retail, office, and other uses could complement housing development within the Highway 7 Corridor, especially if developed in a mixed-use development. In general, new housing located within the Highway 7 Corridor should act as a buffer between surrounding land uses.

The housing types that could be developed in the Highway 7 Corridor are summarized below.

General Occupancy Rental Apartment

Based on our demand calculations, there is demand for about 50 to 60 rental units through 2015. The growth of the rental market could exceed our demand calculation due to the following:

- Projected increase in mortgage interest rates,
- Tightening of lending/credit practices that could curtail some first-time homebuyers from entering the for-sale market,
- Job growth exceeding employment projections, and
- Lack of “move-up” rental housing in Hutchinson.

This demand will be for rental households of varying incomes. We recommend a mixed-income building with market-rate units targeted towards the upper-middle market and about 25% to 35% of the units with income guidelines. The building could be developed as a stand-along project, or as rental units above retail. A mixed-use rental project would be particularly attractive to younger renters who want to be near retail and seniors who desire to be located near services. The recommended building should include underground parking available for an additional fee, and the following common area amenities: community/party room, exercise room, management office, and individual storage lockers. Nonetheless, the success of a mixed-income rental building with community spaces will be very dependent on site location, especially if a mixed-use building. Sites located on the peripheral of Downtown Hutchinson have the greatest potential for this type of housing.

Due to site costs, more affordably priced rental buildings may not be financially feasible on many sites within the Highway 7 Corridor where properties are marketed towards commercial development. At that same time, rental housing can serve as a buffer between existing housing and commercial uses within the Corridor Study Area.

Senior Housing

Due to the current low vacancy rates among senior developments in Hutchinson, there is some pent-up demand for senior housing. However, we do not believe there is enough senior housing demand to warrant the development of new senior housing at this time. Due to the economies of scale, new senior housing typically requires the demand of a minimum of 40 to 50 units to make a project financially feasible. Therefore, a new development would require a larger project than the number of units that could be realistically supported at this time.

However, as the numbers of seniors continue to increase in the coming years, the demand for senior housing will also continue to grow. There may be an opportunity for an active-adult senior housing building within the Highway 7 Corridor that is located in close proximity to Downtown Hutchinson. A building located near the Crow River and within walking distance to Downtown Hutchinson's amenities could be successful in the long-term.

For-Sale Condominiums

Although a condominium would appeal to a wide range of buyers (young-professionals to down-sizing empty nesters and seniors), we do not recommend a condominium development at this time. Presently, we find demand for about 30 to 40 for-sale multifamily units in the Highway 7 Corridor through 2015, which does not warrant new construction at this time. However, like senior housing, a new for-sale condominium development may be feasible sometime in the next decade. A condominium would be best located on a site near Downtown Hutchinson and recreational amenities such as the Luce Line Trail and the Crow River. Furthermore, a condominium could be incorporated into a mixed-use development with first level retail or office space.

For-Sale Townhomes

Townhomes generally appeal to two groups – younger singles and couples without children who are looking for more affordable owned housing, and empty-nesters/retirees who are seeking to shed the maintenance responsibility of their single-family homes. Although we do not recommend townhomes on sites with direct Highway 7 frontage, townhomes could be developed on sites within the Highway 7 Corridor that act as a buffer between other incompatible uses along Highway 7.

We recommend the following townhome housing types:

- *Side-by-Side and Back-to-Back Townhomes* – These units have been attractive to first-time homebuyers and younger move-up buyers. Typically, back-to-back units are priced more modestly – and side-by-side units tend to appeal to a slightly broader market, including some older adults and retirees and some younger families with children as they are more affordable.

- *Main-Level-Living Styled Townhomes* – We recommend two-story side-by-side townhomes with the option for one-story townhomes occupying the end units. All units should feature master suites, with master bedroom and bath, on the main level, and have been popular with empty-nesters and independent seniors, as well as some middle-age couples.

Retail Conclusions and Recommendations

Our demand calculations found that the Highway 7 Corridor could support about 100,000 square feet of additional retail space through 2020. However, should a large retailer (i.e. big box or specialty retailer) seek a site along the Highway 7 Corridor, demand could exceed the estimated 100,000 square feet as illustrated from the retail demand table.

Appropriate Types of Retail in the Highway 7 Corridor Study Area

The greatest retail demand in the Highway 7 Corridor is for stores serving the local population with goods and services they purchase more frequently ("neighborhood retail"). Neighborhood retail provides convenience goods (such as restaurants and café's, pharmacy, etc.) and personal services (such as dry-cleaning, salons, fitness center, etc.) for the day-to-day needs of Hutchinson area residents and workers.

In addition to retail stores, some professional service businesses will seek retail space along the Highway 7 Corridor. These include businesses such as a bank, travel agent, financial planner, insurance agent, etc. We estimate that 10% to 15% of the retail space will be occupied by these types of professional service businesses that prefer storefront or street level space.

Since the Highway 7 Corridor is mostly developed through Hutchinson, it will be challenging to accumulate land sufficient to create a critical mass of retail. Furthermore, most larger retail centers will prefer to locate in close proximity to the Hutchinson Mall and other regional/national tenants. In general, retailers seek close proximity to other retailers and will choose to locate on sites adjacent to other retail developments. As a result, sites located in the Highway 7 Corridor will attract smaller retailer centers and a number of stand alone buildings. Therefore, it could be difficult to accommodate up to 100,000 square feet of retail space through 2020.

Should first-level retail be incorporated into a mixed-use building, the presence of retail-oriented goods and services should increase housing absorptions as potential buyers/tenants seek to locate near stores. However, retailers on the site cannot be viable if supported by residents of the site only. Retail goods and services businesses must capture sales from the surrounding area in order to be successful. The site has to have excellent access and visibility, as well as sufficient parking in order for retail to prosper.

Examples of the types of retail that have potential within the Highway 7 Corridor are listed in Table CR-3, along with the median size (square feet) for each type of store. Some of the types of stores already exist in Hutchinson, but are included because there may be additional demand for certain types of stores, such as hair salons, coffee shops and restaurant establishments.

TABLE CR-3
RETAIL USES BY MEDIAN SIZE OF STORE
EXAMPLES OF POTENTIAL RETAILERS FOR HIGHWAY 7 CORRIDOR
June 2007

Retail Uses:	Median Sq. Ft.	Retail Uses:	Median Sq. Ft.
Neighborhood-Oriented		**Specialty Retail**	
Bagels	**2,000**	**Appliances**	**1,880**
Bank	**4,100**	Arts & Crafts	2,200
Cards & Gifts	2,400	Book Store	4,400
Coffee/Tea	**1,250**	Computer/Software	1,250
Daycare & Nursery	**4,800**	**Convenience Market**	**3,000**
Deli	1,950	Day Spa	2,000
Drugstore/Pharmacy	**9,000**	Decorative accessories	1,650
Dry Cleaner/Laundry	1,600	Dollar Store/novelties	2,800
Fast Food Restaurant	**3,000**	**Eyeglasses-optician**	**1,400**
Film Processing	1,000	**Flowers/plant**	**1,200**
Health Food Store	1,350	**Furniture Store**	**5,000**
Nail Salon	1,050	Health Club	10,000
Photocopy/Fast Print	**1,400**	Hobby	2,500
Pizza	1,500	**Home accessories**	**2,800**
Restaurant with liquor	**4,000**	**Mailing/Packaging**	**1,200**
Sandwich shop	**1,250**	**Office Supplies**	**4,500**
Specialty Food	**2,700**	**Paint & Wallpaper/Flooring**	**3,000**
Sporting Goods	**3,090**	Pet Shop	2,000
Tailor	900	Photographer	1,200
Tanning Salon	**1,250**	Picture Framing	1,250
Telephone/Telecom	1,020	Radio, Video, Stereo	2,100
Unisex hair	**1,300**	Specialty Hardware	2400
Videotape rental	5,600	Telephone Store/Telecom	1,200
Weight Loss Center	**1,300**		
Women's Hair Salon	1,200		

Stores in bold indicate new stores most appropriate within Highway 7 Corridor Study Area

Sources: Urban Land Institute: Dollars and Cents of Shopping Centers, 2002
Maxfield Research Inc.

Retail Lease Rates

Based on the lease rates at newer retail centers in Hutchinson, we believe net lease rates averaging $14 to $18 per square foot will be required to pay for the cost of redevelopment, especially land acquisition. The lower end of this range will primarily be for space with less visibility, while the higher end will be for space with the best access and visibility (i.e. Highways 7 and 15 intersection). Another factor in the lease rate will be type of store format as well, with food retailers generally paying at the high end while non-food retailers and specialty retailers usually are lower. Most potential neighborhood tenants will likely seek space elsewhere if lease rates exceed this level. We estimate that most neighborhood tenants would be national chains as local business owners would not likely be able to afford these rents. For this reason, we envision a retail concentration of national tenants or high-quality local/regional chains.

Timing

Although we found retail demand on the Site for about 100,000 square feet through 2020, we do not recommend bringing all of the space online at one time. We recommend that this space come on-line incrementally over the next ten years, most of which should be developed over the latter part of the next ten-years. Despite the fact there is demand for up to 100,000 square feet of retail space, it will may be challenging to accommodate this much retail in the Highway 7 Corridor.

To maximize the utilization of land in the Highway 7 Corridor, a portion of the retail space could be added in buildings that are mixed-use with either office or housing. In mixed-use buildings, retail should be located on the street level while housing and office would be located above.

Locations

Since visibility and access are key to the success of retail businesses, new retail should be fronted along Highway 7. Most retailers today require sites with minimum traffic counts and high visibility. The following three components; access, visibility, and traffic counts are fundamental site and location criteria for a successful retail development.

Access

One of the key components for a successful retail development is vehicular access to the site and a roadway that has capacity to handle increased traffic levels. Extreme traffic congestion is a deterrent to potential shoppers. Retailers typically seek locations on major arteries and often impose various traffic count standards. Prospective customers must be able to get to the retail area with minimal delay and driving frustration. Access to a retail center must be easy and unobstructed for the retail component to be successful. Retailers want to be easily navigable by car and will balk at a particular location if they believe their customers will have a difficult time getting to them.

Most locations on Highway 7 should provide easy access to motorists. However, due to the recent Highway 7 road improvements, some access points have been realigned by MNDOT. As a result, some sites that previously would have worked well for retail are now less desirable to some potential retailers. Additionally, readily available parking will also be critical.

Visibility

Visual access is one of the most basic forms of marketing and communicating to potential purchasers and it stimulates unplanned shopping trips and purchases. We believe the majority of site's along the Highway 7 Corridor will have great potential to capitalize on its visibility from the Highway. Signage is also an integral part of a retailers' identity; however, poorly designed or cluttered signs can deter from a retail center if there is a lack of synergy between retailers.

Traffic Counts

Traffic counts are used as benchmarks by many retailers who rely heavily on drive-by traffic and the visibility of motorists as a key factor in assessing the potential revenues that may be generated by an outlet at a particular location. Many national chains have very specific traffic count ranges whereby they analyze and assess the potential of a location. The 2003 traffic counts illustrated on page 8 showed traffic counts averaging nearly 10,000 along Highway 7 through Hutchinson. Most small neighborhood centers look for a minimum traffic count of 9,000 to 12,000 vehicle trips per day. Therefore, many retailers could likely consider the Highway 7 Corridor for its proximity to traffic counts.

Office Conclusions and Recommendations

Our calculations show that the Highway 7 Corridor can support 20,000 square feet of office space through 2015. Most potential tenants will be smaller professional service firms such as medical offices, accounting and personal finance offices, etc. They will seek smaller spaces, generally less than 5,000 square feet. There are a variety of office space types that could be developed for these users over the next ten-plus years. These office types are summarized below.

Type of Space

Leased Office Space: The majority of potential office users will be attracted to leased office space (excluding office suites) in either a stand-alone building or multi-tenant building. Nearly all of the medical offices will seek this type of space, as will many of the service businesses, such as attorneys, accountants, financial planners, etc. A mixed-use concept combining traditional office space with first-level retail or housing is also a product type that may be successful. Table CR-6 shows the median square feet of office space some of these tenants will seek.

Retail Space: Some businesses that are traditionally considered users of office space will seek retail space. These include personal service businesses that sometimes prefer the higher visibility that retail space provides. While not all of these potential types of businesses at the Site will seek retail space, some will prefer to be in higher visibility locations where walk-in traffic is important.

Lease Rates

New office space within the Highway 7 Corridor should capture net lease rates priced from $12.00 to $14.00 per square foot.

Timing

The demand for 20,000 square feet of additional office space is through 2015. We recommend bringing the space on-line incrementally. However, all 20,000 square feet of office space could be built immediately if an anchor tenant commits to a sizeable amount of square footage.

TABLE CR-4
POTENTIAL SMALL OFFICE USERS
HIGHWAY 7 CORRIDOR STUDY AREA
June 2007

Office Uses:	Median Sq. Ft.*
Accounting	1,600
Architect/Other Consultants	850
Banks	4,100
Chiropractor	1,200
Finance	1,550
Insurance	1,100
Legal	1,200
Medical & Dental	1,650
Optometrist	1,200
Real Estate	2,400
Veterinary	2,400

* Median Gross Leaseable Area

Sources: Urban Land Institute: Dollars and Cents of Shopping Centers, 2002; Maxfield Research Inc.

Locations

While access and visibility are not as important to office users as to retail space, locations with visibility on Highway 7 will be most appealing to potential office tenants. This is particularly true for a stand alone office building. Locations near the Highway 7 and Highway 15 intersection will be more attractive to potential office users seeking the greatest visibility.

Redevelopment Priorities/Strategies

The Highway 7 Corridor through Hutchinson is undergoing a major reconstruction effort that will help alleviate traffic congestion through Hutchinson. At the same time, the realignment of Highway 7 has changed the landscape of the Corridor, while at the same time presenting new opportunities for future land uses. Key priorities for the Highway 7 Corridor follow.

Highway 7 and Highway 15 Intersection

We believe the first priority for new development should be at the intersection of Highways 7 and 15. Due to the recently completed road improvements, the properties located on the north of Highway 7 are presently vacant and are now available for development. The properties located at this intersection have excellent access and visibility and the highest traffic counts in Hutchinson. Therefore, this intersection has the potential to be a "gateway" while creating a community identity for Hutchinson. At the same time, this junction should be designed to create a synergy with Downtown Hutchinson and promote pedestrian-friendly development.

Link Highway 7 to Natural Amenities

Highway 7 through Hutchinson runs rather parallel with the Luce Line Trail, Crow River, Les Kouba Parkway, and Memorial Park. Many transient motorists on Highway 7 are unaware of the natural and recreational amenities in such close proximity to Highway 7. We recommend exploring opportunities where linkages can be enhanced between the Highway and these amenities. Transient motorists who have a reason to stop in Hutchinson are likely to patronize Hutchinson businesses while taking advantage of some of Hutchinson's amenities.

Moderate Incompatible Land Uses

As illustrated in Table 1 on Page 5, the Highway 7 Corridor contains a wide assortment of land uses. Some land uses are not compatible with the surrounding land uses, such as commercial adjacent to housing, etc. Single-family homes with frontage on Highway 7 may be sought out by commercial business owners seeking to establish a commercial use on the site. Therefore, future zoning should allow for flexible land uses should other proposed uses illustrate improved compatibility.

Napa Auto Block

The Napa Auto block is situated between Highway 7 and the Luce Line Trail, near Bluff Street and the Hutchinson Utility Plant. The site is one block east of the Highway 7 and Highway 15 intersection, just north of the Crow River, and is one the key property's Highway 7 motorists see when entering Hutchinson from the east. However, the block has a somewhat "worn-out" look and includes a number of commercial users, including: Napa Auto Parts, Frank Motors, Navigator Financial Group, Erickson Auto, and Standard Printing and Office Products. Because the property is adjacent to the Luce Line Trail, Crow River, and walking paths to Downtown, the site would bode well for redevelopment.

A number of land uses would work well at the site, including retail, office, and housing. Housing could be positioned in a number of ways for the site; including for-sale townhomes in a row-house design or a standard multi-story rental or condominium building. However, if a multi-story building is pursued, we recommend incorporating the housing into a mixed-use building with first-level retail and/or office.

Cenex site

The Cenex Co-op is one-block south of Highway 7 and is adjacent to the Luce Line Recreational Trail, Les Kouba Parkway, and Riverside Park. As such, the site is generally considered an underutilized land use in its present state. The redevelopment of this parcel would provide synergy between Highway 7 and the aforementioned amenities.

Although a residential land use could capitalize on the sites natural amenities, the site is located in a commercial zoning district and residential development would be incompatible with the existing uses. Therefore, we do not find the site suitable for a housing development. The site is also challenging to develop as the property is located within the 100-year flood plain of the Crow River. Although the site is well-situated for other commercial uses, there may be some difficulty obtaining the proper permits since the property must meet floodplain guidelines.

The Cenex site could also be utilized as public space; such as green space, pet area, children play area, etc.