



Market Analysis

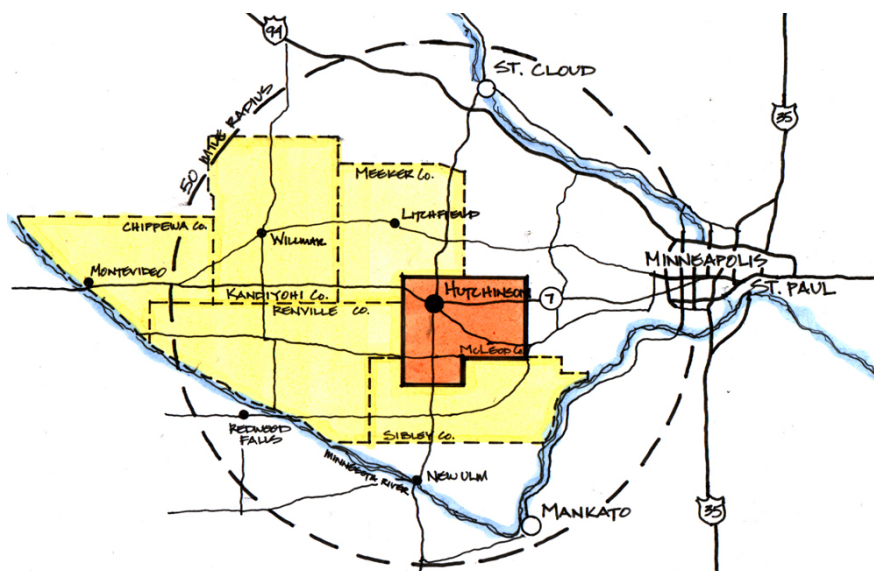
The Hutchinson Downtown Revitalization Plan focuses heavily on the physical improvement of downtown. To a large degree though, the physical attractiveness of downtown is dependent on a healthy business climate. Maintaining viable shops, offices, housing and attractions within the area promotes private investment and sustains the viability and attractiveness of downtown Hutchinson.

In general terms, Hutchinson has seen steady and managed growth over the past century. Historically, Hutchinson has been a rural agricultural center, and although agriculture has declined somewhat in recent years, it remains an important part of Hutchinson's economy. Hutchinson has developed into a regional center of commerce and acts as a trade center to people in South Central Minnesota. The continual growth of the service/retail, health care and educational industries along with a thriving industrial base provide the diverse economic base needed to allow the city to survive potential economic downturns. As a result of this healthy economic climate, Hutchinson has continued to enjoy a relatively high level of occupancy in its downtown businesses. This situation is seldom found in rural communities today, especially when competing with newer, auto-oriented commercial areas on the outskirts of town.

Assembling a market analysis for downtown was one of the key background elements of this plan. It is important to fully understand business conditions today as well as opportunities that are likely to occur in the future. A comprehensive market analysis was undertaken to examine existing conditions, to review future growth projections and to identify opportunities and challenges that lie ahead. A complete copy of the market analysis is contained in the Market Analysis Technical Memorandum that was prepared as a companion document to this plan.

Trade Area

Community residents as well as individuals residing in the surrounding area support business activities in downtown Hutchinson. Hutchinson businesses are able to draw retail spending from within a two-tiered trade area that was defined based on interviews with local business proprietors, property managers, knowledge of competitive areas, and general knowledge of retail practices.



The primary market for downtown Hutchinson businesses encompasses McLeod County, with a larger, secondary trade area extending approximately 50 miles west to the counties of Meeker, Kandiyohi, Chippewa, Renville and Sibley.

The primary market encompasses McLeod County. Households from within this area shop regularly in Hutchinson. A larger, secondary trade area extends approximately 50 miles west, encompassing the counties of McLeod, Meeker, Sibley, Renville, Kandiyohi, and Chippewa. Within this area, households generally rely on local businesses for some goods and services, but will travel to Hutchinson (and beyond) for substantial portions of their retail spending. Households located beyond this six-county area will likely elect to shop in competitive commercial centers such as Mankato, St. Cloud, and New Ulm.

Retail Market

Retailers contemplating market opportunities seek markets that are either growing or underserved, with market support provided by a combination of local residents, visitors, and local workers. In seeking to attract new retail business and development, downtown Hutchinson faces competition from a variety of external locations, and its competitive position is constrained by (1) Hutchinson's limited demographic and economic growth prospects, and (2) the limited range of retailers that are likely to seek locations in downtown Hutchinson.

Notwithstanding these limitations, the Hutchinson retail community offers underserved market niches. These will not likely be substantial enough to support new construction, but over a long-term time frame, if the City can maintain downtown's unique character and an attractive environment, apparel stores, miscellaneous specialty goods and services, and eating and drinking establishments may offer opportunities for new businesses.

The Hutchinson Retail Sales chart shows total retail sales in the City of Hutchinson from 1974 through 1998. A significant change in the retail market occurred in 1998 with Target and Wal Mart opening at the south end of town. Over this 24-year period, sales grew at an average annual pace of 7.5 percent. During this same period, average annual inflation approximated 3.0 percent, with annual household growth of roughly 1.5 percent. Thus, inflation and household growth account for 4.5 (1.5 + 3.0) percent of the overall 7.5 percent annual retail sales growth; the remaining 3 percent reflects a combination of (1) an increased penetration of outside trade areas, (2) increased spending from within the local trade area, and (3) greater capture/retention of local spending.

In examining various store categories, three trends emerge:

- Over the long-term time frame, the fastest growth has occurred in general merchandise (department stores), which along with food and groceries achieves the largest volume of sales. Growth has approximated 9 to 10 percent per year for each of the periods from 1974-1980, 1980-90, and 1990-2000. The consistency of these growth rates pre-dates the Hutchinson Mall, indicating that the opening of the mall shifted—rather than expanded—Hutchinson's retail growth from downtown stores to larger retail centers.
- More recently, in the 1990s the fastest annual sales growth occurred in the hardware/building materials (9.3 percent), furnishings (9.8 percent) and general merchandise (8.7 percent) categories. These patterns may reflect the shift toward large-format retailers, wherein major retailers offer comprehensive selections and/or discounted prices in larger formats and thereby draw customers from increasingly broad market trade areas.



A typical retail use on Main Street takes advantage of downtown's unique character and a "historic" building.

- After achieving rapid growth in the years before 1990, sales growth in the miscellaneous and apparel categories has slowed and fallen well below the rates of inflation, local household growth and overall retail spending growth. This slow growth most likely reflects: (1) the ability of department stores to capture spending in these categories; and (2) the increasingly strong competitive position of Twin Cities locations—and the Mall of America in particular—in drawing shoppers from Hutchinson, McLeod County and other rural communities.

Overall, the retail market analysis indicates that while Hutchinson serves as a retail destination for a broadly defined non-metropolitan region, its existing retailers have not been able to capture the full retail spending potential within the six-county trade area. Specific opportunities exist for apparel stores, miscellaneous specialty goods and services, and eating and drinking establishments.

In serving these potential areas of underserved demand, downtown Hutchinson faces formidable competition. Hutchinson’s retail concentrations to the south of downtown will preclude some types of downtown opportunities; retailers that will find downtown most suitable will consist primarily of independently operated businesses seeking proximity to downtown’s low lease rates, its historic character, and its array of unique specialty retailers.

	<u>1974</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>1974-2000</u> Avg. Ann. Change	<u>1980-2000</u> Avg. Ann. Change	<i>Hutchinson Retail Sales: 1974-2000</i>
Hardware/bldg materials	\$5,723,020	\$5,517,747	\$7,024,227	\$17,141,720	4.3%	5.8%	<i>Specific opportunities exist for apparel stores, miscellaneous specialty goods and services, and eating and drinking establishments.</i>
Avg. Annual Change		-0.6%	2.4%	9.3%			
No. Stores	13	17	15	11			
Gen. Merchandise	\$4,948,020	\$8,764,215	\$24,517,821	\$56,401,340	9.8%	9.8%	
Avg. Annual Change		10.0%	10.8%	8.7%			
No. Stores	11	8	8	8			
Food/Grocery	\$11,366,778	\$11,690,397	\$25,481,213	\$54,628,955	6.2%	8.0%	
Avg. Annual Change		0.5%	8.1%	7.9%			
No. Stores	9	10	13	9			
Apparel	\$872,266	\$1,885,282	\$4,353,025	\$3,929,241	6.0%	3.7%	
Avg. Annual Change		13.7%	8.7%	-1.0%			
No. Stores	11	15	20	17			
Furniture	\$1,394,084	\$3,330,292	\$4,170,946	\$10,629,657	8.1%	6.0%	
Avg. Annual Change		15.6%	2.3%	9.8%			
No. Stores	15	25	18	30			
Eating and Drinking	\$2,537,873	\$4,510,522	\$9,403,835	\$19,101,227	8.1%	7.5%	
Avg. Annual Change		10.1%	7.6%	7.3%			
No. Stores	23	26	31	28			
Miscellaneous	\$3,318,904	\$6,750,715	\$16,943,250	\$22,162,825	7.6%	6.1%	
Avg. Annual Change		12.6%	9.6%	2.7%			
No. Stores	63	65	154	135			
Total	\$30,160,945	\$42,449,170	\$91,894,317	\$183,995,203	7.2%	7.6%	
Avg. Annual Change		5.9%	8.0%	7.2%			

Source: Minnesota Dept. of Revenue.

Given these opportunity niches, new businesses may seek retail space in downtown Hutchinson; substantial new downtown retail development, however, is not likely to be supportable in the near future. Two factors account for this:

- New businesses will include small, independently operated businesses. Such businesses will typically seek small spaces containing less than 2,000 square feet, and many of these will generate sales of less than \$100 per square foot. The emergence of such businesses occurs incrementally, and will not likely occur in sufficient volume to support new retail buildings containing 10,000 square feet or more.
- Development economics: Even if a new project could achieve high occupancies, prevailing gross lease rates of \$10 per square foot are not likely to provide a competitive return on a developer's investment.

Office Market

In general, office development will target areas that offer convenient proximity to (1) existing concentrations of office tenants; and (2) office labor, including executive labor as well as administrative support staff. Hutchinson offers neither of these attributes, and its office tenants are primarily household-serving, service providers located in small commercial buildings. While new office tenants may be attracted to existing (or renovated) office space in downtown Hutchinson, the short-term future will not offer strong opportunities for substantial new office construction in downtown Hutchinson. Over time, however, as local and regional population and employment grow, new professional service providers and other office tenants may be able to support demand for new office space in the downtown area.

Future office tenants are likely to include professional service providers; as long-term growth occurs, such service providers are likely to seek small spaces (generally less than 5,000 square feet) in various buildings along Main Street and Hutchinson's other commercial corridors.

Lodging Market

The lodging market in Hutchinson consists of 240 rooms in six properties. Lodging properties are comprised of mostly smaller facilities containing 20 to 50 rooms. Guests include a mix of construction workers and traveling families, but the largest client groups comprise corporate business travelers (sales representatives, corporate recruits/trainees, service providers) doing business with or for Hutchinson Technology and 3M. The market operates at its highest occupancies from June through October, with significantly lower occupancies during the winter and spring.

Since local lodging facilities derive most of their support from the area's two major corporations, the fate of future lodging is closely tied to future business expansion. If and when Hutchinson corporations expand their local presences, the hotel market may offer opportunities for new development. For the reasonably foreseeable future, however, new substantial lodging development would enter into direct competition with existing facilities. Given the difference in the levels of services offered at some of the existing local motels, their similar room rates indicate that new facilities would most likely be restricted to similar rates. Such rates may not be sufficient to support a new full-service facility. By adding new inventory to the market, it is likely that a new facility would succeed only at the expense of one or more of the area's existing properties.



Professional service providers are likely to seek smaller spaces such as those found along Main Street.



Lodging facilities in Hutchinson consist of mostly smaller facilities. The L.A. Ritter House, a Bed and Breakfast in downtown Hutchinson, is one of the smallest lodging facilities in the city.

In order to attract new lodging development, Hutchinson will require a higher visitor volume, which will most likely be generated by either an expanded corporate presence, or by increased meeting and event activity. If and when such growth occurs, however, new lodging development will most likely seek locations outside of downtown, at locations directly adjacent to destinations such as the City’s new conference facility on Highway 15, or at other locations along major highways offering ample undeveloped land.

Housing Market

In general, residential development will have a role but not a substantial role in downtown Hutchinson’s revitalization. Some forms of attached housing development may be viable, but the volume of such development will not provide substantial support for downtown retailers.

This finding rests primarily upon demographic trends and projections, general research regarding downtown housing trends in Hutchinson and in other similar communities, and a review of an analysis of the Hutchinson housing market, prepared for the Hutchinson HRA by Maxfield Research. The market analysis conducted as part of this plan combined with the prior work by Maxfield Research establishes the following framework for future residential growth:

- Hutchinson’s citywide housing market is likely to support up to 790 new dwelling units over the next ten years. Demand over the next five years would absorb 430 units.
- Of these 430 units, approximately 100 would be multi-family for-sale units, with most of these in single-story structures. The current inventory of planned multi-family units located in outlying parts of Hutchinson would satisfy most of this demand.
- Over the next five years, the market for 2-story attached for-sale housing would amount to a total of approximately 20 to 25 units.
- The market-rate rental housing market does not offer opportunities for new development over the next five years.
- The primary demand for attached housing in Hutchinson will be for low-income households, independent seniors, and low-income seniors. Over the next five years, this demand would amount to a combined total of 125 to 150 units. Of this total, market demand for mixed-income independent senior housing would comprise roughly 40 to 45 dwelling units.
- The vast majority of recent residential development, including attached housing development, has occurred in Hutchinson’s outlying areas. Strategic locations in downtown (e.g., close to either Main Street or the Crow River) would be suitable and marketable for such development. Such developments, however, would most likely occur in smaller projects of 20 to 30 units.

Other Attractions

In addition to the basic development sectors reviewed previously, the market analysis also considered the potential for other “anchor” or “destination” uses and attractions that might contribute to Hutchinson’s downtown revitalization efforts. In larger communities, such



Single-family housing on the edge of downtown

destinations might include theaters, museums/cultural features, meeting facilities, resort destinations, or manufacturers' outlet centers.

Investigations into various potential destination uses have not identified opportunities for profit-driven investments in new downtown anchor attractions. A performing arts facility, however, offers the potential for a destination attraction that may prove viable for a nonprofit entity. A 750-seat auditorium exists within Park Elementary School and could be renovated to become a major attraction for downtown and the community.

This type of facility would add to the diversity of activities and entertainment venues in downtown Hutchinson. Such a facility might feature live theater, dance, music, and other live stage productions, visual arts exhibits, and areas for concessions, rehearsals, workshops, classes, and other functions.

In Hutchinson, the Hutchinson Community Theater Group is currently affiliated with the Crow River Arts. Although not a separate legal entity at this time, the Community Theater Group or a similar organization could be a potential anchor tenant for a theater facility. This group, has achieved successes in its initial productions (staged in a local restaurant and a County Fairgrounds facility), and its plans include additional productions and eventual occupancy of a more permanent location in downtown Hutchinson.

Like many such organizations, the Hutchinson Community Theatre Group would probably have to rely on initial capital funding from a range of benefactors including foundations, other nonprofit organizations, and other businesses and individuals within the community. While the group envisions that it will be able to meet operating costs in the future, it may need ongoing contributions in the form volunteer labor, funding contributions, etc. In addition to the Theatre Group's own productions, additional users of such a facility might include the Minneapolis Children's Theater (1 day/yr); Prairie Fire Theater (1 wk/yr.), local choirs, dance studios and local artists, who currently rely on local school and church venues.

Where such endeavors succeed, the history of arts facilities in other communities illustrate the added vitality that such facilities can contribute to downtown districts. Performing arts facilities offer events on 100 to 150 dates each year. Many of these dates would bring local residents as well as visitors downtown, providing an entertainment attraction and generating business for local stores and restaurants.

In addition to performing arts opportunities, Hutchinson also serves as a recreation destination. The Luce Line Trail that extends 63 miles from Plymouth to Cosmos passes through downtown Hutchinson on the north side of the Crow River. Since the trail passes through downtown, it provides another source for visitors to stop, shop and take advantage of local attractions. Virtually all of the web sites that provide an overview of the Luce Line Trail speak of shopping opportunities in Hutchinson as well as visiting the McLeod County Historical Society Museum. Other facilities and events also attract people to downtown Hutchinson and support its continued viability. Bed and breakfasts are located adjacent to downtown within easy walking distance of shops, restaurants and entertainment. Community events attract people from a wide geographic area. The farmers market offers food items and other merchandise twice a week. The library attracts a diverse group of users. City Hall and the Post Office provide governmental services within the fabric of downtown.



The auditorium inside Park Elementary School has the potential to be a major attraction for downtown.



The Luce Line Trail passes through downtown and provides another source of visitors to Hutchinson.

Market Summary

For the near-term future, downtown Hutchinson does not offer market opportunities for major new development projects. The most promising market niches for new business tenants include specialty retailers focused on niches such as apparel and miscellaneous specialty goods such as gifts/crafts, toys/hobbies, books, sporting goods, and visitor-oriented businesses such as antiques or eating and drinking. Based on the performances of existing businesses and properties, these types of establishments may be able to support prevailing rents along Main Street, but they are not likely to achieve the revenues necessary to support new development.

In the immediate future, downtown Hutchinson faces neither precipitous decline nor substantial development opportunity. In the absence of these, the highest priority should target the maintenance of downtown's aesthetic environment and its general ability to attract new businesses.

Market Implications for Downtown Revitalization

Based on market findings, it would be neither advisable nor prudent for the City of Hutchinson to assemble land for short-term real estate development opportunities. Moreover, downtown is not likely to accommodate substantial new development even in a longer, five to ten-year time frame. Such development prospects are limited by:

- The City's modest growth forecasts;
 - General rent levels and revenue levels typically achieved by independent retailers – as compared to rent levels required to justify new high-quality development, which typically target franchise retailers; and
 - Recent performances at the city's major shopping centers.

Notwithstanding these limitations, downtown Hutchinson comprises one of the City's most important assets. Regardless of their gross revenues, the small, independent retailers currently occupying Main Street storefronts give the City a unique character that appeals to prospective residents, shoppers, and businesses, distinguishing Hutchinson from other communities in McLeod County and other areas outside the Twin Cities metropolitan area.

The message contained in the market analysis is one of future opportunities that will occur in an incremental manner rather than through sudden growth and extensive change. As a result, the focus of Hutchinson's downtown revitalization efforts should be on businesses rather than real estate. Improvements and programs that make downtown a better place to do business, that create a vibrant, attractive and interesting environment and that bring people into the area should be priorities. Consistent with this overriding idea, the City should consider the following measures:

- Assistance in Small Business Development/Retention: One potentially productive measure would involve the creation of a publicly funded small business office providing technical assistance for small business planning. Such an office would help new businesses:
 - estimate costs,
 - identify tasks,
 - address issues such as insurance, employment benefits, taxes, etc.

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- help identify financing programs, sources, and procedures,
 - assist in creation of web sites and links, and
 - other such tasks.

This type of program would give Hutchinson an advantage over other small-town downtown districts as a prospective location, lower barriers to entrepreneurial ventures, and ultimately help generate a larger pool of prospective tenants for downtown Hutchinson. Currently, Ridgewater College offers a business management course. Efforts should be made to inform potential downtown business owners of this course and encourage business owner participation.

- The City should also encourage businesses to keep evening/leisure hours. Through its downtown business association, the City can introduce this issue and programs involving a system whereby coupons are made available to evening shoppers, redeemable during other evening hours at participating vendors.
- Investment in attractions: Attractions such as visual or performing arts, recreational facilities, or other such uses, placed in proximity to downtown, could help attract visitors to downtown. Many such uses would not be profitable from a purely private-sector perspective and may rely on various forms of assistance (volunteer work as well as financial assistance from various sources), but they would contribute to the array of attractions and amenities that give downtown its collective critical mass of destinations.

This list of potential public measures is not comprehensive. It serves, however, to provide an illustration of the types of directives that can contribute to downtown's critical mass. This critical mass is the collective "anchor" that differentiates downtown Hutchinson from other downtowns throughout McLeod County and the broader region extending from the Twin Cities metropolitan area as far west as the South Dakota border. With this critical mass of destinations and unique stores, downtown becomes increasingly attractive to other businesses from within Hutchinson and its surroundings. The maintenance and enhancement of this mass is the key to increasing the depth and breadth of potential opportunities for future downtown private investment and development in downtown Hutchinson.