

Commercial Market Study: Owatonna, Minnesota

Prepared For:
City of Owatonna, Minnesota

Submitted By:
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Executive Summary

1.1 COMMERCIAL DEMOGRAPHICS

Owatonna's commercial market is limited by nearby competition from Faribault, Albert Lea, and Austin, but also enhanced by its location at the intersection of I-35 and US Highway 14. The presence of several big-box stores such as Cabela's, Lowe's, Kohl's, Super Walmart, and Target better position Owatonna to compete with larger centers such as Mankato, Rochester and the southern Twin Cities Metro Area.

Like most communities, the recent recession suppressed growth in Owatonna to unusually low levels for several years. However, Owatonna's diverse economy, anchored by Federated Insurance, Jostens, and an expanding Viracon, will help return the Trade Area to a pattern of steady, consistent growth. Overall, the Owatonna Trade Area is forecasted to add more than 1,300 (8%) new households over the next 10 years. Much of the new residential development, driven by employment growth, will cater to families with children, a strong indicator of long-term commercial potential.

Our analysis revealed that, based on a comparison of sales reported to the State of Minnesota and the estimated aggregate trade area income, Owatonna retailers are capturing as much in retail sales as residents have to spend. However, this is at the broadest level of analysis. Our detailed research into specific uses revealed that Owatonna lacks roughly 15 specific retail/service uses that are commonly found in cities of this size (e.g. Italian restaurant, seafood restaurant, women's shoe store, athletic apparel store, etc.).

1.2 COMMERCIAL MARKET SUPPLY

Owatonna's commercial market contains a wide variety of uses, fitting into virtually every category in the retail/service spectrum of offerings. We identified seven distinct commercial districts in the community, in addition to a small number of freestanding uses. Despite the recent recession, Owatonna added over 280,000 square feet of new commercial space since 2005. However, the overall supply of space in Owatonna has not changed significantly over that time period. This is mostly due to the replacement or repurposing of older and obsolete commercial space into non-commercial space. A prime example of this is the modification of Cedar Mall into a Federated Insurance training center. This is a healthy dynamic as it removes underutilized or vacant properties, which can be a blight, and lowers vacancies. As a result, citywide vacancies are low at around 3% (as a point of comparison, the Twin Cities overall retail vacancy rate is currently 5.1%¹), which is a strong indication that the City's commercial market is very healthy.

¹ CoStar, a nationally based provider of commercial real estate information

Our review of the City's pending commercial projects revealed that new investment will likely be limited to small-scale projects designed to fill gaps in the market within individual districts. We believe that a number of additional small businesses could be successful if added to the community, and the market's interest in key sites along I-35 could lead to additional junior-box development.

In essence, the overall variety of retail and service offerings in Owatonna has continued to expand over the past eight years, despite a strong downturn in the economy starting in 2008. Owatonna's commercial market supply is strong and growing, albeit at a slower pace than what occurred in the late 1990s and early 2000s.

1.3 COMMERCIAL SPACE NEEDS 2013-2023

The bulk of Owatonna's future need for land designated for commercial space will be generated through growth in the local residential spending potential. Given Owatonna's somewhat unique position in the regional market, though, we also accounted for heightened traffic (destination shoppers) and the momentum in local development trends.

Rapid commercial development in the late 1990s and early 2000s greatly expanded the supply of commercial space and offerings in Owatonna. Since 2005, however, the rate of growth moderated significantly due to the recession. Although the economic recovery is likely to fuel additional growth, we believe that it will be very difficult to develop new commercial space at the aggressive rate prior to the recession. With five big-box retail stores already in the market, some of which have plans to undergo major renovations and updates, we believe the potential to add more big-box stores is limited. With that being said, though, there is a lack of medium-size retail space for "junior"-box stores (15,000-30,000 square feet). Therefore, we think two to four additional junior boxes may enter and "round out" the market, though, new commercial space will be smaller in size.

Overall, we project a need for between 35 and 47 additional acres to accommodate new commercial development between 2013 and 2023:

- We project 15 to 20 acres (130,000 to 170,000 sq. ft.) of retail/service space demand from trade area household growth alone.
- 5 to 7 acres should be set aside for new smaller-space office development.
- 15 to 20 acres should be set aside for quasi-retail uses in less prime retail locations, such as the area just west of I-35 and the new US Highway 14.

1.4 GENERAL COMMERCIAL MARKET RECOMMENDATIONS

1. **Focus on residential and job growth to strengthen existing and future commercial base.** New jobs are the strongest way to build a sustainable, long-term commercial

base, as they attract new residents and create spin-off spending by daily workers and the businesses themselves.

2. **Embrace smaller-scale commercial development, as the bulk of the big-box building boom has mostly passed.** While we believe that another two to four “junior”-boxes will likely develop over the coming decade, the boom period is likely gone.
3. **Maintain disciplined planning by not creating new commercial districts.** The city should work to see raw land developed, and key sites redeveloped in existing districts, before creating new ones. Some specific uses, such as car dealerships or quasi-retail uses along new US Highway 14 may be an exception to this rule, however.
4. **Consider long-term strategies for the potential reuse of big-boxes or similar sites that end up lacking the “staying power” to survive, long-term.** The reuse potential of these buildings is extremely limited and they can sit vacant for years, barring a sensible “exit strategy.”
5. **Be prepared for increased competition from other cities, key intersections to the north, and the Internet.** As the I-35 corridor develops, and the southward growth of the Twin Cities continues to sprawl, competition for spending in the corridor will increase.
6. **Measure the health of Owatonna’s commercial market via quantitative benchmarks on an annual basis, such as the following:**
 - a) Total occupied square footage by use segment (retail, service, office, entertainment, etc.)
 - b) Sales increases
 - c) Hotel occupancy levels
 - d) Pedestrian and car traffic
 - e) Information requests to the Chamber and Business Incubator
 - f) Commercial space vacancy rates and length of time to fill them
 - g) Rental rates for commercial space
 - h) Customer satisfaction surveys
7. **Recognize and embrace the Downtown District’s shift from a retail center to an office/service hub and a location for more experiential retail in which the unique character of the buildings, streets, and other public amenities will drive demand.** It will be important to maintain, protect, and, if possible, enhance the unique downtown environment through continuous streetscape upgrades, storefront improvement programs, and strategic rehabilitation of key properties to name but a few potential tools and strategies.

8. **Consider how design changes at the 26th Street NW and West Frontage Road intersection may enhance the development potential along West Frontage Road.**
Given the relative equilibrium of the current retail market, it may be beneficial to perform a cost-benefit analysis of improving this interchange since it could largely result in relocation of existing businesses rather than create new ones in the short term.
9. **Focus efforts on defining key market niche identities for each shopping district.**
Establishing identities for Owatonna's commercial districts will help clarify, communicate, and efficiently coordinate economic development activities.
 - a. **Cabela's:** visitor orientation, large scale
 - b. **Old Highway 14 and Bridge Street:** Highway oriented and general retail suitable for less frequent (1-2 x per week) shopping. Larger scale formats. Chain restaurants and largely national retailers.
 - c. **CashWise:** if the former Walmart property does not redevelop into new retail uses, consider whether this district serves any long term niche or should be transitioned to other uses.
 - d. **Downtown:** small eclectic mix of unique shops, dining and entertainment uses mixed in with employment. Historic character and high amenity streetscape. Encourage tourist retail in the Cabela's district to extend trips to the Downtown.
 - e. **Landmark and South Cedar:** Owatonna lacks true neighborhood retail nodes and these two districts should be focused on high frequency, small radius uses such as convenience store, drug store, grocery, professional services, etc.

2.0 Commercial Demographics

This section presents information regarding the demographics related to consumer spending. This section begins by defining the Trade Area for commercial businesses in Owatonna. It then examines population and household growth patterns in the trade area, resident age distribution, household incomes, and typical household spending.

2.1 TRADE AREA FOR COMMERCIAL BUSINESS IN OWATONNA

The area from which a commercial district draws the majority of its business is known as the Trade Area (TA). The boundary for a TA is determined by many factors, but mostly by the location of the next closest area offering a similar complement of goods and services. Ideally, the TA for a given commercial area has no other competitors for several miles in each direction, giving it the strong advantage of convenience to surrounding households. In reality, travel routes and intervening land uses (e.g. large parks with no through routes) often make one area more convenient than another that may be closer “as the crow flies.”

In order to define the trade area for commercial uses in Owatonna, we reviewed transportation networks, surrounding land uses, the existing distribution of commercial space in the surrounding communities, and the location of natural and cultural barriers. While it is nearly impossible to define hard boundaries for trade areas, conversations we held with local businesspersons helped to shape the “rough” edges of the local trade area.

The map on the following page shows the location of Owatonna’s Commercial Trade Area in relation to surrounding, competing trade areas. The map shows that Owatonna’s local Trade Area is comprised of Steele County and the westernmost townships in neighboring Dodge County. These boundaries are due to Rochester’s strong commercial influence from the east, and Mankato’s and Waseca’s (limited) presence to the west. The northern and southern edges are demarcated by competing trade areas centered around the cities of Faribault, Albert Lea, and Austin.

In addition to the competition created by the commercial businesses in the nearby communities of Faribault, Albert Lea, and Austin, the regional trade areas emanating from Mankato, Rochester and the Twin Cities also increase competition along the I-35 corridor commercial market.

For many large-format retailers choosing to enter a non-metropolitan area, the local trade area is nearly always incapable of “single-handedly” supporting a new store. Thus, increased patronage from beyond the local, to the regional, trade area is necessary for success. This has been the case in Owatonna over the last 10 to 15 years as the concentration of large-format retailers, such as Cabela’s, Walmart, Target, Fleet Far, and Kohl’s, has served to increase

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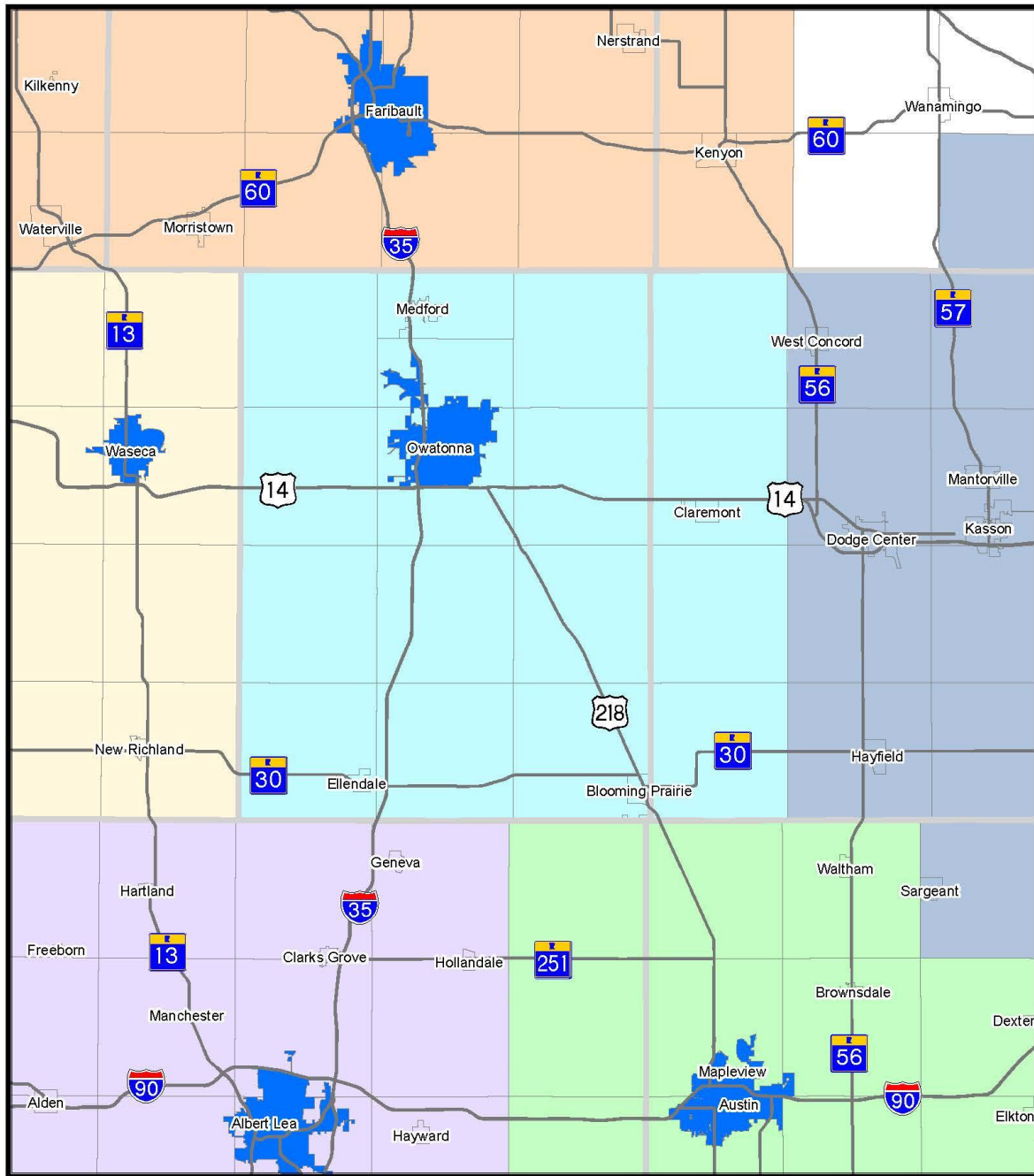
Commercial Demographics
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patronage from outside the immediate trade area, particularly to the south where the trade areas do not have the same complement of stores as in Owatonna.

Essentially, the map shows that Owatonna's geographic proximity to multiple commercial centers illustrates the level of competition for available resident spending in the region surrounding the city.

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Trade Areas

Owatonna Market Study
Owatonna, Minnesota



- Major City
- Albert Lea Trade Area
- Austin Trade Area
- Faribault Trade Area
- Owatonna Trade Area
- Rochester Trade Area
- Waseca Trade Area

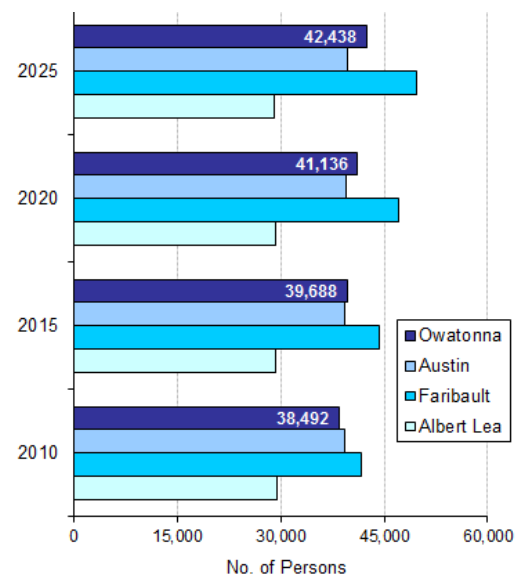
2.2 DEMOGRAPHICS RELATED TO COMMERCIAL SPENDING

The demographic indicators in this section refer to Owatonna's Trade Area and three nearby trade areas identified in the map on the preceding page (Faribault, Albert Lea, and Austin). In each graphic, the Owatonna Trade Area numbers are printed to the right of its corresponding bar.

2.2.1 Population Growth Trends

- Owatonna's Trade Area contained 38,492 people in 2010. Based on data from the Minnesota State Demographer, we estimate that the Trade Area population will increase by 3% (1,196 people) to 39,688 by 2015. The bulk of this growth will likely occur in the City of Owatonna.
- The population of the Trade Area is forecast to continue at a similar rate of growth into the foreseeable future. By 2020, it is estimated the Trade Area will reach a population of 41,136 and by 2025 it will reach 42,438, which would be 10.3% increase over 2010.

Figure 1: Population Growth Trends
Commercial Trade Areas, Owatonna & Nearby Cities

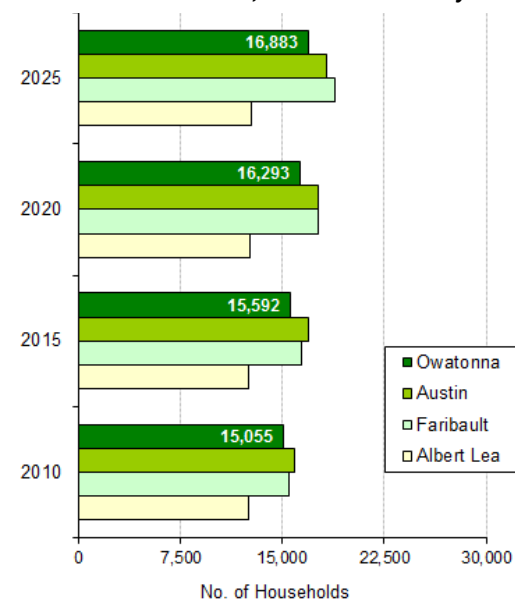


Sources: U.S. Census; MN State Demographer; Stantec

2.2.2 Household Growth Trends

- Household growth trends in the Trade Area generally follow the same pattern as Trade Area population growth trends. The household growth rate in the Owatonna Trade Area is forecasted to be 12.1% between 2010 and 2025, an increase of 1,828 households.
- When measured against the population growth, the number of persons per household is expected to decline slightly over the next 12 years. This will be due largely to the aging of the population in which older adult households without children will dramatically outpace households with children.

Figure 2: Household Growth Trend
Commercial Trade Areas, Owatonna & Nearby Cities



Sources: U.S. Census; MN State Demographer; Stantec

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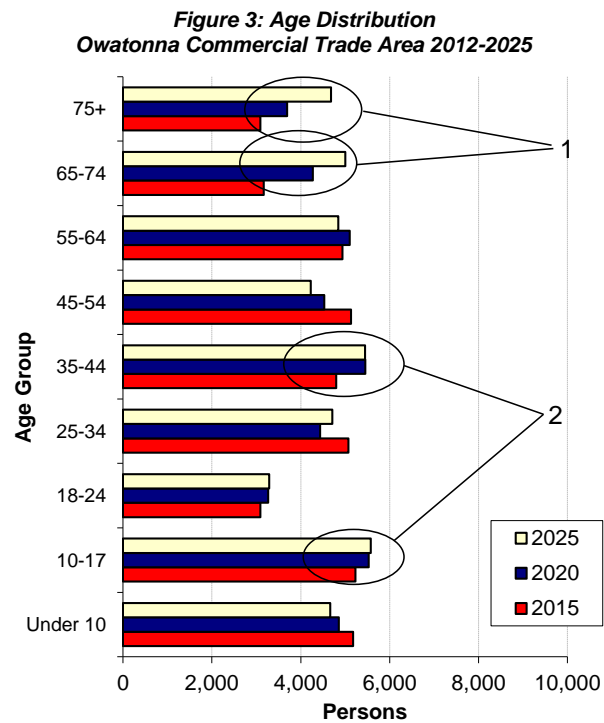
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As both charts on the preceding page show, the Owatonna Trade Area is projected to grow at a faster pace than the Austin and Albert Lea Trade Areas and slightly slower than the Faribault Trade Area.

2.2.3 Age Distribution of the Population

As households age, their needs and spending habits shift. We reviewed aging trends in the Owatonna Trade Area to more clearly understand the Area's commercial market potential. The chart to the right shows the distribution of the trade area population, by age, at three points in time: 2015, 2020 and 2025. Stantec derived the estimates from a comparison of the 2010 U.S. Census, to aging rates published by the Minnesota State Demographer.

- Like many municipalities in Greater Minnesota, the Owatonna Trade Area is seeing significant portions of its resident population age into retirement years (#1, as indicated on the chart). This group includes the leading edge of the baby boom generation, a term that implies someone born between 1945 and 1965, a period of high birth rates in the post-war United States.
- In terms of commercial spending potential, this aging population will likely change the types of goods and services demanded in the trade area. Spending in these households should shift to more lifestyle and health categories and away from "family" categories such as high-volume grocery purchases, household repair and value-priced clothing.



- Conversely, the middle adult and adolescent categories (#2 on the chart) are also likely to grow, due in part to the fact that these age groups are the children and grandchildren of the baby boom generation, as well as Owatonna's strong and growing employment base.
- These households, which often include middle and high-school age children, spend more on the family categories such as those indicated above, somewhat offsetting the loss in category spending from the aging baby boomers. These households also typically "move-up" in housing as the adults enter their highest earning years and the children are

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older and demand more space and privacy. This regeneration of market potential is indicative of a healthy local housing market, and indicates potential for long-term commercial investment in the community.

2.2.4 Trade Area Household Income

Household incomes in an area have a direct effect on commercial market potential, as spending potential can often be a key determining factor for new businesses that may consider moving to the community.

Table 1 to the right shows the estimated average household income for the seven selected trade areas in 2013 (Stantec estimate, based on incomes reported in the 2010 U.S. Census).

- Owatonna's Trade Area is estimated to have the second-highest average household income (\$66,441), though only \$4,400 separates the estimated average household incomes in Owatonna from those in the Mankato (\$63,408), Waseca (\$62,720), and Faribault Trade Areas (\$62,003). Average incomes are estimated to be highest in Rochester (\$82,251).
- When the average incomes are aggregated (Table 2), however, a distinctly different picture of each Trade Area's spending potential emerges. The Owatonna Trade Area's total income (\$1.02 billion) is slightly above Faribault's (\$996 million), but well below Mankato's (\$3.04 billion) due to the differences in population.
- With nearly five times as many households, Rochester's Trade Area has an aggregate household income (\$5.95 billion) nearly six times the aggregate income in the Owatonna Trade Area. At the far end of the spectrum, Waseca's limited potential to draw commercial traffic from a long distance results in only an estimated \$364 million in aggregate income.

**Table 1: Average Household Income
Owatonna and Nearby Trade Areas
2013**

Trade Area		Average HH Income ¹ (2013)
Rochester	-	\$82,251
Owatonna	-	\$66,441
Mankato	-	\$63,408
Waseca	-	\$62,720
Faribault	-	\$62,003
Austin	-	\$57,409
Albert Lea	-	\$56,572

¹ Stantec estimate

Sources: U.S. Census; Stantec

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**Table 2: Aggregate Residential Retail Spending Potential
Owatonna and Nearby Trade Areas 2013**

Trade Area	Est. Avg. HH Income	x	No. of Households	=	Aggregate Income	x	Estimated Pct. Spent on Local Retail	=	Trade Area Retail Spending Potential
Rochester	\$82,251	x	72,313	=	\$5,947,793,356	x	28%	x	\$1,665,382,140
Mankato	\$63,408	x	47,878	=	\$3,035,845,158	x	28%	x	\$850,036,644
Owatonna	\$66,441	x	15,377	=	\$1,021,663,932	x	28%	x	\$286,065,901
Faribault	\$62,003	x	16,056	=	\$995,517,046	x	28%	x	\$278,744,773
Austin	\$57,409	x	16,548	=	\$949,999,615	x	28%	x	\$265,999,892
Albert Lea	\$56,572	x	12,529	=	\$708,791,483	x	28%	x	\$198,461,615
Waseca	\$62,720	x	5,800	=	\$363,773,762	x	28%	x	\$101,856,653

Sources: U.S. Census; Bureau of Labor Statistics; Stantec

Although Owatonna Trade Area households have an aggregate income of over \$1 billion, only 28% of a household's income is actually spent on commercial goods and services. This translates to a trade area spending potential of roughly \$286 million. The remainder of the \$1 billion is spent on other needs, such as housing, healthcare, and education. The ensuing section more accurately describes typical commercial spending patterns.

It should be noted that the figures presented in Tables 2, 3, 4 and 5 do not include revenue and spending pertaining to auto-related businesses (dealers, gas stations, parts stores and service providers) in Owatonna. Our experience has shown that household spending at auto-related businesses varies significantly, and it is extremely difficult to accurately discern the relationship between local spending and sales. For example, a consumer may be willing to travel a considerable distance to purchase a new automobile, but still limits the bulk of his or her grocery purchases to a local supermarket. However, our inventory of Owatonna's existing commercial base, presented in the ensuing section of this report, does report on the location and prevalence of auto-related businesses throughout Owatonna's various commercial districts.

2.2.5 Consumer Spending Patterns

Table 3 shows estimated household spending patterns in the Owatonna Trade Area for typical commercial goods and services purchased at the local level. This detailed level of data is not available at the Trade Area level, so we use metropolitan averages to estimate the spending potential at the local level². We believe that these figures accurately describe Trade Area household spending patterns for commercial goods.

² Annual survey, U.S. Census and Bureau of Labor Statistics.

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- The typical Owatonna Trade Area household spends roughly 28% of gross household income (\$18,437) at the local level for retail goods and services.
- The highest amount of local spending is for groceries (food at home, 6.8% of total HH income), with an additional 4.0% of income spent on eating out (food away from home).
- Other significant expenditures are in the Housing, Entertainment and Apparel categories. It should be noted that the Housing category refers to dollars spent on finishing and upkeep of the home (furniture, flooring, repair, cleaning supplies, etc.), not on rent or mortgage payments.

**Table 3: Estimated Average Annual Expenditures¹
Local Retail Spending Potential
Owatonna Trade Area
2013**

Average Household:	Trade Area	
	Dollars	Pct.
Income² before taxes	\$66,441	100.0%
Local³ retail spending	\$18,437	27.8%
Food at home	\$4,485	6.8%
Food away from home	\$2,624	4.0%
Alcoholic beverages	\$598	0.9%
Household Items	\$2,558	3.9%
Apparel and services	\$1,727	2.6%
Health care supplies	\$797	1.2%
Entertainment	\$2,990	4.5%
Personal care products and services	\$664	1.0%
Reading	\$133	0.2%
Tobacco products and smoking supplies	\$399	0.6%
Gifts	\$731	1.1%
Miscellaneous	\$731	1.1%

¹ Spending patterns based on Tw in Cities Metro rates, per BLS 2011 survey

² Household Income estimate, per U.S. Census and Stantec.

³ Extrapolated from total retail spending by Stantec.

Sources: Bureau of Labor Statistics; U.S. Census; Stantec

2.2.6 Commercial Spending Potential in Owatonna

Development in Owatonna over the past 10 years has elevated its profile as a strong commercial center in south-central Minnesota. While the addition of big-box destination centers like Cabela's, Lowe's, and Kohl's enable the city to draw consumers to the community from a considerable distance, the vast majority of spending at local stores emanates from the trade area defined earlier in this section of the report.

In addition to residents, Owatonna's daytime workforce that lives outside of the trade area complements local spending potential. With sizable employers such as Federated Insurance, Viracon, Jostens and Truth Hardware, consistent spending in categories such as convenience goods and services and food away from home adds to the trade area's overall commercial spending potential.

Table 4 notes the additional spending potential created by the daily workforce in 2013, and projected in 2018. Stantec, based on employment figures published by the Minnesota Department of Employment and Economic Development (DEED), developed the spending potential estimate. The table shows that spending potential is increased by just over \$13 million in 2013 and by nearly \$14 million in 2018.

**Table 4: Current and Projected Spending Potential
Owatonna Trade Area
2013 and 2018 (2013 Dollars)**

Trade Area (TA) Retail/Service Demand	2013	2018
Aggregate Estimated Household Income in the TA	\$1,021,663,932	\$1,059,269,563
(times) Percent Spent on Local Retail Goods & Services	x 28%	28%
(equals) Resident Household Spending Potential	= \$284,022,573	\$296,595,478
(plus) Estimated Spending by Non-Resident Daytime Workers	+ \$13,302,615	\$13,827,781
(equals) Trade Area Spending Potential	= \$297,325,188	\$310,423,258

Sources: Urban Land Institute; DEED; U.S. Census (LEHD dataset); Stantec

Given that Cabela's generates a significant amount of destination consumer traffic and spending, it is safe to assume that non-trade area residents generate a notable amount of local sales revenue. To better understand the relationship between local Trade Area spending and actual sales generated by local retail and service businesses, we compared the spending potential identified in Table 4 to the trends in sales as reported by the Minnesota Department of Revenue.

Table 5 (right) shows gross revenue generated by businesses in the retail, personal services, entertainment, recreation and food service (restaurant) categories in Owatonna in 2007, 2010 and 2013³. A comparison between Tables 4 and 5 shows a disparity of \$99 million between the trade area spending potential (\$297 million) and the estimated commercial revenue generated in Owatonna in 2013 (\$396 million).

We believe that this influx of non-trade area spending speaks directly to the considerable draw power of four interchanges located on I-35 and the effect of destination stores, such as Cabela's, and the critical mass of the other big-box stores in the market, which results in "spin-off" spending at surrounding restaurants and retailers.

**Table 5: Retail Sales Trends
City of Owatonna
2007, 2010, & 2013¹**

2007	-	\$342,256,023
2010	-	\$381,125,607
2013	-	\$395,589,467

¹ Stantec estimate

Sources: MN Dept. of Revenue;
Stantec

While it was beyond the scope of this study to present detailed comparisons for specific retail categories, the Department of Revenue reported that gross sales in the Leisure Goods category totaled \$58 million in 2010. The vast majority of this spending likely emanated from Cabela's, and was probably generated by non-trade area residents. In addition, we believe the presence

³ The 2013 estimate was developed by Stantec, based on sales trends from 2003 through 2010, as reported by the Minnesota Department of Revenue.

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of Lowe's, Kohl's, and Fleet Farm, which do not have stores in trade areas to the south, help draw additional non-trade area spending as well.

We believe that Owatonna is currently operating at or near its resident trade area spending capacity. At capacity, it could be expected that new development may begin to "cannibalize" spending currently directed to existing businesses. At a broader level, Owatonna does not appear to be lacking in retail and services to accommodate residents. However, it is beyond the scope of this study to determine opportunities for specific retail and service uses that may be lacking in the city.

2.3 COMMERCIAL DEMOGRAPHICS SUMMARY

The Trade Areas map at the beginning of this section highlighted the pressures being placed on the local commercial market by nearby competitors and regional centers with strong drawing power. The geography shows that Owatonna's commercial market is limited by the nearby competition, but also enhanced by its location at the intersection of I-35 and US Highway 14. The regional draw power of larger centers such as Mankato, Rochester and the southern Twin Cities Metro Area has traditionally drawn the bulk of consumer spending in destination-retail categories from rural areas and smaller communities throughout south-central Minnesota.

The recent development of big-box stores such as Lowe's, Cabela's, and Kohl's has better positioned Owatonna to capture those lost sales and draw spending from a greater distance than was previously possible. This increased patronage has benefited ancillary retail and service businesses surrounding these centers, as well as other small businesses in Owatonna.

Retailers seek markets that offer potential for strong household growth and sufficient incomes for spending. Overall, the Owatonna Trade Area has been growing at a steady pace. Much of the new residential development will cater to families with children. Young families are a strong indicator of long-term commercial potential, as the needs of raising a family should generate commercial demand for a wide variety of goods and services, for an extended period of time.

Our review of household incomes revealed that surrounding household incomes are highest in the Rochester Trade Area. The Owatonna Trade Area leads the remaining seven areas we analyzed, with an estimated average household income of \$66,441 in 2013. When aggregated and combined with spending generated by Owatonna's daily workforce, the area's retail spending potential in 2013 equates to an estimated \$297 million. While this figure alone is high enough to make Owatonna stand out from other nearby trade areas with similar spending potential, the presence of Cabela's and related retailers draw an estimated \$90-\$100 million of additional, non-trade area spending on an annual basis.

3.0 Commercial Supply Analysis

This section presents our analysis of the supply of commercial (retail and service) space in Owatonna. We completed a detailed field inventory, collecting information on use type, estimated store size and location. We included service uses in our inventory, such as hair cutters, dry cleaners and tanning salons (among others), as these uses operate very much like pure retailers, selling services to consumers rather than straight goods. Office businesses, such as banks, law firms and insurance sales are also included. Increasingly in the marketplace, most commercial districts are actually developed with a mix of retail, service and office businesses.

The inventory does not contain information on hospitality uses (hotels/motels), industrial uses, or corporate offices (Federated Insurance, Jostens, etc.). While the distribution of these use types have an effect on any community's commercial viability (i.e. there would be considerably less spending potential if Federated Insurance was not in Owatonna), they do not operate like commercial users, and are, therefore, beyond the scope of this report.

3.1 SPATIAL DISTRIBUTION OF COMPETITIVE SPACE IN THE TRADE AREA

We divided Owatonna's commercial businesses into 7 distinct districts. The map on the opposite page shows the locations of sizable concentrations of commercial and office uses in the City of Owatonna.

Owatonna's seven districts are mostly concentrated in community gateways and in the central business district (downtown). The districts are defined below and characterized in more detail in the ensuing pages. Space estimates were assembled by Stantec, based on information obtained from local owners/leasing managers, and through our field inventory.

We identified the following commercial districts in Owatonna (additional detail provided in sections 3.1.1 through 3.1.7):

- South Cedar District – 67 users, 271,100 estimated square feet of space, 7% vacant (2005: 81 users, 317,500 estimated square feet of space, 2% vacant)
- Downtown District – 153 users, 362,500 estimated square feet of space, 4% vacant (2005: 188 users, 438,700 estimated square feet of space, 7% vacant)
- CashWise District – 20 users, 129,100 estimated square feet of space, 0% vacant (2005: 22 users, 229,730 estimated square feet of space, 31% vacant)
- Landmark District – 23 users, 56,750 estimated square feet of space, 0% vacant (2005: 9 users, 21,700 estimated square feet of space, 0% vacant)

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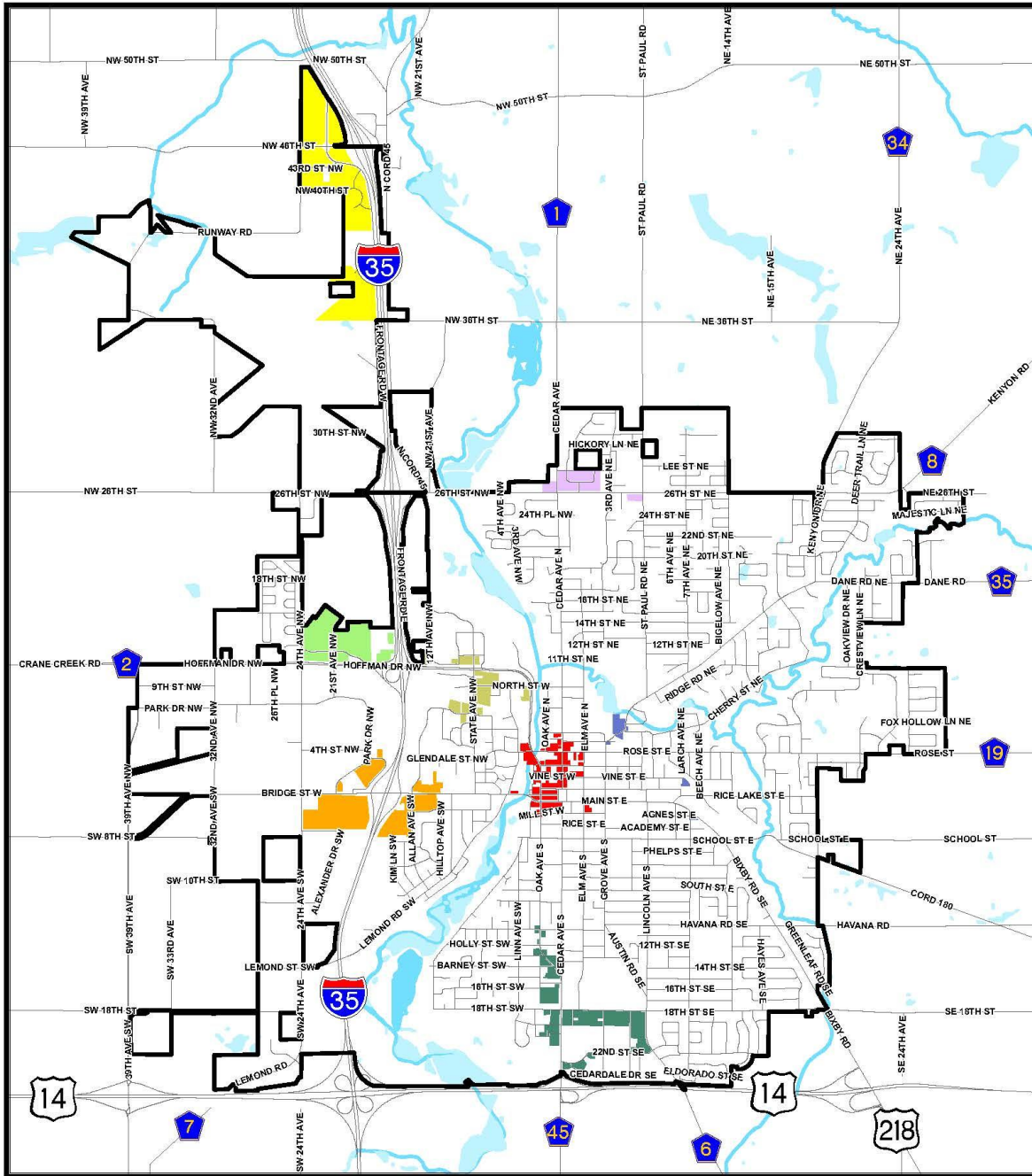
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- Old Highway 14 District – 33 users, 472,270 estimated square feet of space, 3% vacant (2005: 27 users, 337,280 estimated square feet of space, 2% vacant)
- Bridge Street District – 38 users, 497,163 estimated square feet of space, 0% vacant (2005: 38 users, 478,243 estimated square feet of space, 1% vacant)
- Cabela's District – 15 users, 256,100 estimated square feet of space, 1% vacant (2005: 12 users, 285,120 estimated square feet of space, 15% vacant)

In addition to these seven distinct districts, there are 9 additional freestanding commercial and office businesses in Owatonna, totaling an estimated 27,150 square feet of space. In total, we tallied 358 commercial users (including vacant space, but excluding vacant parcels) in Owatonna, totaling just over 2 million square feet of space.

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Commercial Districts

Owatonna Market Study
Owatonna, Minnesota



- | | | |
|-------------------|------------------------|-------------------------|
| — Road Centerline | Bridge Street District | Free Standing |
| — City Boundary | Cabela's District | Landmark District |
| — Open Water | Cashwise District | Old Highway 14 District |
| — NWI Wetland | Downtown District | South Cedar District |



March 21, 2013

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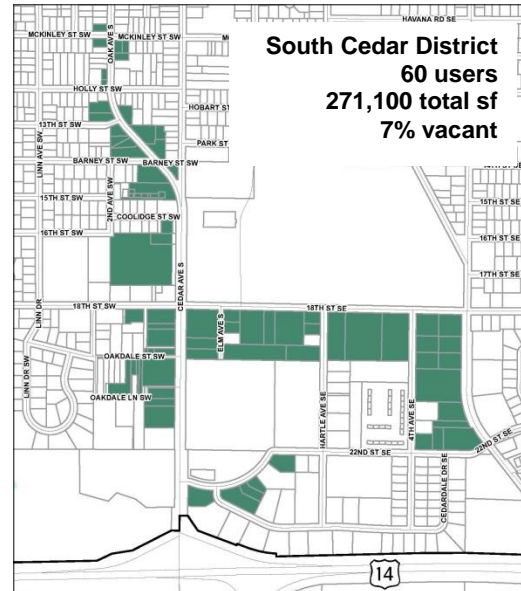
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3.1.1 South Cedar District

Type: Neighborhood retail
Access: Direct access from US Highway 14
Visibility: No visibility from major highways

Cedar Avenue is the primary entry to Owatonna from local (non-interstate) northbound traffic. Situated on the southern edge of Owatonna, this district was long anchored by the Cedar Mall and a Hy-Vee grocery store. The Mall has been converted in recent years to back office space for Federated Insurance and Hy-Vee rebuilt a larger store on its site. Newer development in the district (past 10 years) has added new office/service space, a convenience store at its eastern edge, and a Walgreen's. We noted several vacant buildings are scattered throughout the district, though new proposals to redevelop properties on the northern edge of the district along Oak Avenue South will help stabilize the market.

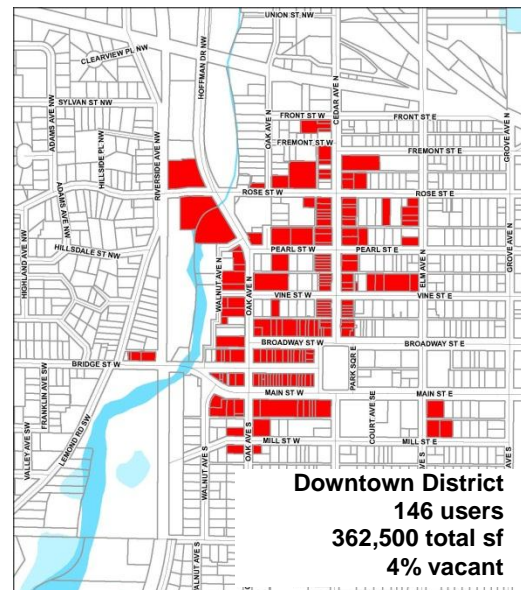


Overall, this district has maintained a strong commercial presence, even though its location makes it highly inaccessible to the traffic generated by the new commercial centers in northwestern Owatonna. Since the district must rely on local traffic, the influx of workers to the Federated offices at the mall has created a consistent flow of spending to the area, particularly at surrounding restaurants and retail stores.

3.1.2 Downtown District

Type: Community/service hub with retail
Access: Primarily via local streets
Visibility: No visibility from major highways

Downtown Owatonna remains the central business district in the community, despite the significant development of new space along Interstate 35. Our inventory revealed a strong mix of offices, retail stores and service providers. The district is home to multiple large employers, such as Josten's and Federated Insurance. We noted a 4% vacancy rate in the district, though much of the vacant space is limited to outdated space along its northern edge. The relatively low vacancy rate is largely due to a progressive reduction in the amount of viable commercial space in the Downtown brought on by



the repurposing of existing space into non-commercial uses (e.g., storage) or demolition of buildings.

Restaurants (food service) account for over a third of the district's retail businesses. However, like many evolving downtowns in Greater Minnesota, retail stores only comprise a third of the district's businesses (50 of 153 total users). We also noted a relatively equal share of office users (63 users) and a sizable contingent of service businesses (33 users). Though redevelopment opportunities are limited, we believe this district could benefit from the new traffic generated along the interstate through strategic marketing efforts and aesthetic improvements.

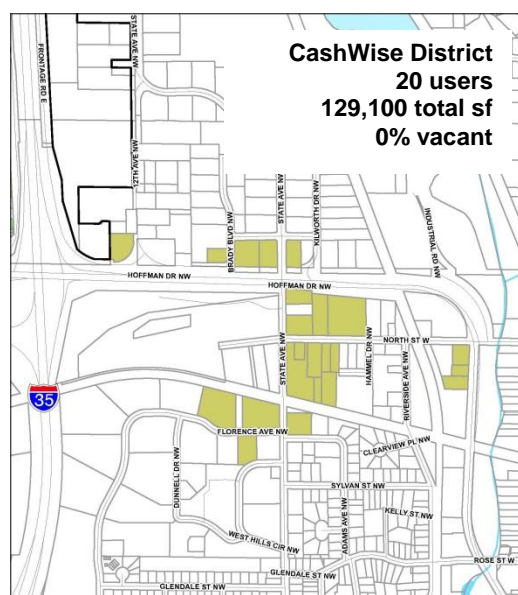
3.1.3 Cash Wise District

Type: Neighborhood retail with automotive focus

Access: Arterial connection to I-35

Visibility: No visibility from major highways

This district, historically, has served as the northern gateway to Owatonna's central business district and to residential areas throughout older sections of town. It now contains a relatively small number of businesses, mostly retail. The largest user, CashWise Foods, anchors smaller, ancillary users, most of which are automotive related. Prior to the development of the new Super Walmart along Highway 14, this district was home to a 70,000-square foot Walmart store. After remaining vacant for a number of years, a portion of the building is being considered for new retail while the remainder may be converted into non-commercial uses.



Overall, this district is somewhat limited in its commercial development potential. It contains a somewhat eclectic business mix, dominated by automotive users, and is pinched by surrounding barriers (railroad) and industrial users. Its location near a freeway exit should help it maintain its commercial presence in coming years, despite traffic being increasingly directed to new stores on the western side of Interstate 35. Redevelopment of the former Walmart building, however, could catalyze further investment into the district.

3.1.4 Landmark District

Type: Neighborhood service and retail

Access: Primarily via local streets

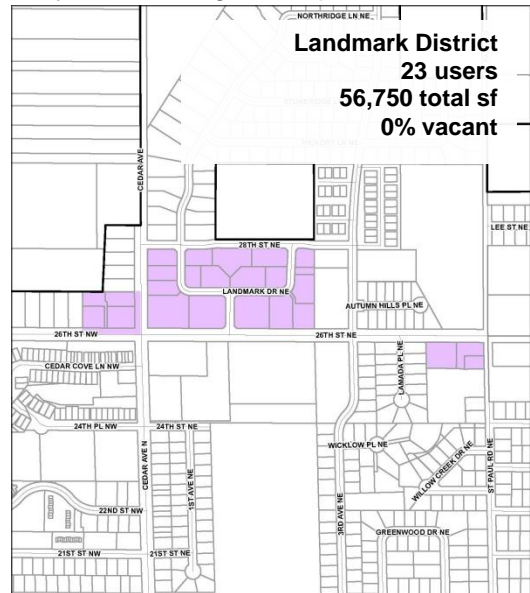
Visibility: No visibility from major highways

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This small district is the newest in Owatonna, developing along its northern boundary in one of its more rapidly-growing residential neighborhoods. Currently, 12 buildings are up, with 23 businesses in operation. Significant portions of the district have yet to be developed, though plans call for a mix of neighborhood-scale businesses.

The largest piece of the district, the northeastern quadrant of the Cedar Avenue-26th Street intersection, will be known as the Landmark Center. We noted 6 vacant parcels within the Center's plan. Initially, the developers of the project had hoped to land a small-scale grocery store and a convenience store in order to draw traffic and "kick-start" the development of the remaining parcels. Although this particular use has yet to materialize, the area has added mostly small office buildings with medical and financial users.



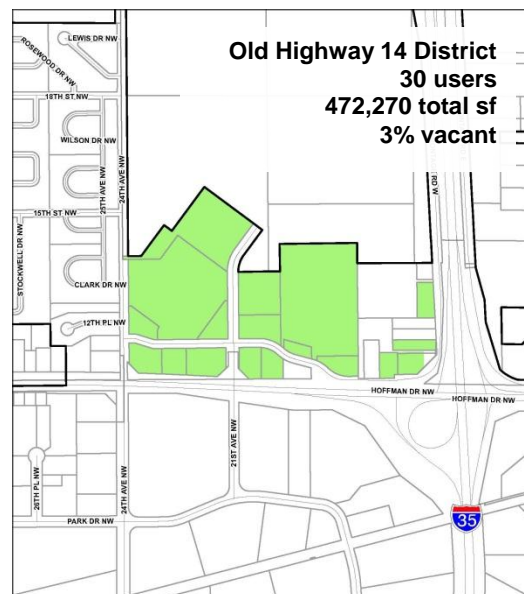
Overall, this district is well-positioned to capitalize on the current and future residential development potential of the surrounding neighborhood. Furthermore, planned roadway improvements along 26th Street NE including a full access intersection at Landmark Drive and a new stoplight at Cedar Avenue North will further entice additional commercial development by increasing accessibility to the Center. Although such improvements do not currently have a scheduled timeline, continued growth along the City's northern and eastern edges will necessitate the changes.

3.1.5 Old Highway 14 District

Type: Community retail with highway focus
Access: Direct access from I-35
Visibility: Good visibility from major highways

Though a small amount of commercial space has operated at the I-35/Old US-14 interchange for a number of years, the development of commercial space, anchored by a Super Walmart (2003), a Lowe's Home Improvement store (2005), and a Kohl's (2006), has transformed this district into one of high-demand in the local commercial marketplace. In the wake of the big-box stores, ancillary uses rapidly filled in outlots and buffer sites along the edges of the larger stores.

Given its size relative to other districts in Owatonna, the Old Highway 14 District contains very little office



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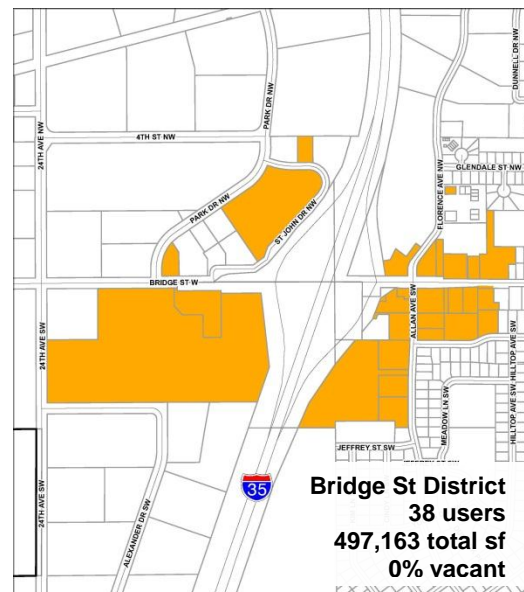
space, in essence, offering a true retail/service atmosphere. Despite the strong presence of this district, several of the outlot centers have vacant space, which are the result of challenging site lines, ownership issues related to bankruptcy, and the lingering effects of the recession on retailers. We also noted seven vacant parcels in the district, indicating that it holds strong potential to realize increased development in the near future.

Overall, this district has commanded the attention of commercial investors seeking sites with strong potential along the I-35 corridor. It's location along Hoffman Drive (old Highway 14), which provides the most direct access to the downtown and the civic and governmental uses in the West Hills area, further enhances the district's ability to draw traffic from beyond the local trade area, increasing its marketability to developers.

3.1.6 Bridge Street District

Type: Community retail with highway focus
Access: Direct access from I-35
Visibility: Good visibility from major highways

Another freeway interchange district, the Bridge Street District contains a growing mix of retail, office and service businesses. Interestingly, two big box anchors on the west side of I-35 (Target and Mills' Fleet Farm) command some of the highest traffic in Owatonna, but the east side has realized a more significant surge in activity and market interest. A strip center and freestanding businesses, including a movie theater, have opened within the last 10 years and enjoyed immediate success and have remained occupied since.

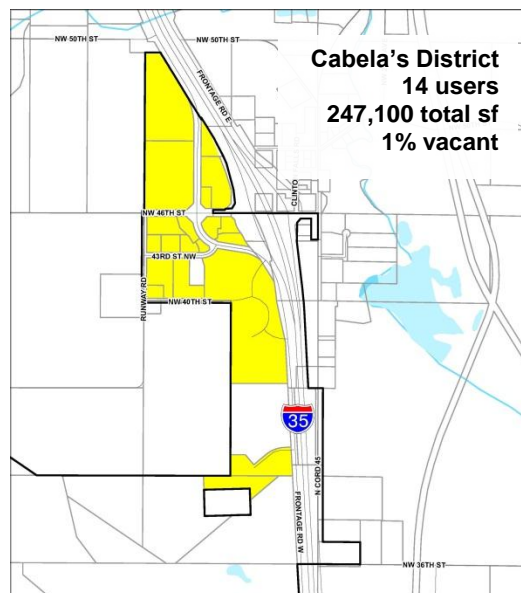


This district lies astride Bridge Street, the primary east-west artery into Downtown Owatonna, further enhancing its strong market position. Smaller developable sites remain on both sides of the interstate, though surrounding residential and industrial uses severely limit the types of development that could be considered in the district. Future redevelopment of some parcels could also become a possibility. For example, Target is relatively "buried" in the northwest quadrant of the interchange. Given the strong location of the new Super Walmart, and Target's interest to maintain a vital presence in the community, we could foresee it possibly move to a more marketable and visible location elsewhere in the community.

3.1.7 Cabela's District

Type: Highway/destination retail
Access: Direct access from I-35
Visibility: Excellent visibility from major highways

The introduction of Cabela's first store in Minnesota sparked a flurry of development in this district located at the northern edge of Owatonna, on the west side of Interstate 35. Since opening in 1997, the district has grown to include 14 businesses, containing a total of 247,000 square feet of space. All of the development in the district has been retail, with no offices or service businesses entering the district. Two hotels operate in the district, and seven restaurants compete for their share of the spending brought by a reported 4 million annual visitors.



A couple important tracts of property remain to be developed, primarily south of Cabela's. According to commercial brokers familiar with the area, the developable land in this district prior to the recession was some of the most coveted and most costly land along the I-35 corridor. Although land in this district is still coveted, the slow absorption of an ancillary strip retail center and the expansion of Cabela's into the Twin Cities market have tempered expectations.

Overall, this district appears to have strong development potential in the current and foreseeable market. Although Cabela's opened a new store in Rogers and is opening another in Woodbury, which has likely pulled some traffic from the Twin Cities, the Owatonna store is entrenched in the mindset of consumers from southern Minnesota/northern Iowa seeking its goods. Traffic at the store should remain strong and the district should continue to feed off the Cabela's presence.

3.2 BREAK DOWN OF SERVICE USES BY TYPE AND LOCATION

Table 6 shows detailed information about the commercial retail and service uses in each of Owatonna's commercial districts. We utilized the Urban Land Institute's model for categorizing businesses into broad business classes and more detailed business types⁴. The table shows a detailed breakdown of users by ULI use category, number, square footage, and location within the Trade Area by commercial district or freestanding location.

- Automobile businesses and restaurants (food service) comprise 56% of the total number of retail users in Owatonna, but only 19% of the total retail space. This high proportion of businesses is likely due to direct highway access in several districts.

⁴ Full list of Broad Business Classes and Business Types is listed in the Appendix.

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- Restaurants can be found in all seven districts, but are concentrated primarily in the Downtown and Bridge Street Districts; 32 of Owatonna's 55 restaurants (58%) are located in these two districts. Automotive stores are the only other category that can be found in each commercial district.
- Big-box development has spurred recent development of many smaller users throughout Owatonna's commercial districts. Though the table does not display it, big-box stores are located in five districts (store sizes obtained from city records and CoStar, a national commercial real estate research firm):
 - South Cedar: Hy-Vee (68,925 sq. ft.)
 - CashWise: CashWise Foods (65,000 sq. ft.)
 - Old Highway 14: Super-Walmart (162,730 sq. ft.); Lowe's (116,000 sq. ft.); Kohl's (86,000 sq. ft.)
 - Bridge Street: Target (90,000 sq. ft.); Mills' Fleet Farm (226,493 sq. ft.)
 - Cabela's: Cabela's (150,000 sq. ft.); Slumberland Outlet (38,300 sq. ft.)
- The Clothing & Accessories and Shoes categories, basic needs for all Trade Area households, have a very limited presence in Owatonna (6 businesses, 22,500 square feet). Increasingly, spending on apparel is concentrated at regional and super-regional malls (generally Metro locations), or in discount general merchandise stores. While some local spending for these items is likely fed to the Medford Outlet Mall, we anticipate that most apparel spending consistently leaves the community.
- The widest variety of stores can be found in Owatonna's Downtown District. While Owatonna's downtown is witnessing a shift away from traditional retail stores to more eclectic, special interest shops, it still offers goods and services in nearly every category.
- Though development on the city's edges has taken a great deal of retail spending away from the Downtown District, it remains the city's office and services hub. Overall, Service and Office businesses in Downtown comprise 51% of the users and 43% of the space inventoried in these categories, citywide. Within the Downtown District, 96 service and office users account for 63% of the businesses, taking up 57% of the total space.
- Owatonna's overall vacancy rate (3%) is comparable to many retail markets we have studied in Minnesota. In 2005, when the previous market study was prepared, this rate was much higher (8%) driven by sizable amounts of vacant space in the former Walmart building along Hoffman Drive (70,230 sq. ft.; CashWise District) and the former Heritage Halls museum (42,820 sq. ft.; Cabela's District). The removal of these buildings from the

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inventory due to protracted vacancy issues⁵ and repurposing into non-commercial uses (e.g., place of worship) has resulted in a much lower citywide vacancy rate.

Table 6 does point out the numerous vacant parcels spread throughout the seven districts. Overall, we noted 29 parcels available for development in districts with a strong commercial presence. The most marketable of these are likely those located in the three districts situated along the Interstate 35 corridor. The district with the most parcels available for new development is the Landmark District, with 11 parcels.

⁵ The former Walmart building on Hoffman Drive, after years of limited interest, has recently been under serious consideration for redevelopment. Possible plans include a range of uses including retail, industrial, or even a mixture of the two. Due to the uncertainty of what exactly might happen with this property, it was not considered part of the retail inventory for this study. However, it is an example of the dynamic nature of real estate, in particular retail real estate, and should be played close attention to as any redevelopment of the building has the potential to catalyze further redevelopment in the district or, conversely, limit its redevelopment potential.

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**Table 6: Competitive Commercial and Office Uses
Commercial District Breakdown in Owatonna
February 2013¹**

Category	Total		Total Estimated Trade Area Square Feet	Commercial District																
	No. of Users	No. of Users		South Cedar 2013		Downtown 2013		CashWise 2013		Landmark 2013		Old Hwy 14 2013		Bridge Street 2013		Cabela's 2013		Freestanding 2013		
				No. of Users	Est. Sq. Ft.	No. of Users	Est. Sq. Ft.	No. of Users	Est. Sq. Ft.	No. of Users	Est. Sq. Ft.	No. of Users	Est. Sq. Ft.	No. of Users	Est. Sq. Ft.	No. of Users	Est. Sq. Ft.	No. of Users	Est. Sq. Ft.	No. of Users
General Merchandise	6	295,210																		
Food	7	195,230	2	55,000	1	3,000	1	65,000			3	193,000	2	99,210			1	5,000		
Food Service	55	165,260	5	16,000	18	32,700	2	8,000	2	8,000	2	69,230	1	1,000			7	28,300	1	1,000
Clothing & Accessories	5	19,500			4	7,500											1	12,000		
Shoes	1	3,000			1	3,000														
Home Furnishings	7	57,500	1	7,000	3	6,500			1	4,500							2	39,500		
Home Appliances/Music	6	18,231			5	16,000					1	2,231								
Building Materials/Hardware	5	366,793	1	4,000	2	20,300					1	116,000	1	226,493						
Automotive	29	123,300	7	30,000	7	30,200	7	35,600	2	6,000	2	4,500	2	7,000			1	5,000	1	5,000
Hobby/Special Interest	4	155,000			1	3,000			1	500	1	1,500					1	150,000		
Gifts/Specialty	3	7,000	1	3,000	2	4,000														
Jewelry	2	2,500			1	1,500											1	1,000		
Liquor	7	22,200	1	2,500	1	3,000			1	3,500	2	8,200					1	3,500	1	1,500
Drugs	2	19,500	1	11,500	1	8,000														
Other Retail	11	30,700	2	5,500	3	4,700						3	19,000	3	1,500					
Retail Subtotals	150	1,480,924	21	134,500	50	143,400	10	108,600	7	22,500	21	442,461	24	378,663	14	243,300	3	7,500		
Personal Service	38	61,344	6	11,500	20	31,150	3	2,500	1	2,000	6	5,794	1	1,000			1	7,400		
Entertainment/Community	25	130,585	6	47,000	13	33,700	1	6,000	1	250	1	3,135	2	36,000			1	4,500		
Service Subtotals	63	191,929	12	58,500	33	64,850	4	8,500	2	2,250	7	8,929	3	37,000	0	0	2	11,900		
Financial Office	48	126,000	10	26,500	24	62,250	3	5,500	3	6,000	2	6,500	4	15,500			2	3,750		
Non-Financial Office	78	162,000	17	33,200	39	78,800	3	6,500	11	26,000			7	16,000			1	1,500		
Office Subtotals	126	288,000	27	59,700	63	141,050	6	12,000	14	32,000	2	6,500	11	31,500	0	0	3	5,250		
Vacant Space	19	52,280	7	18,400	7	13,200	0	0	0	0	3	14,380	0	0	1	3,800	1	2,500		
Vacant Parcels	29	0	0	0	0	0	0	0	11	0	5	0	5	0	8	0	0	0		
Vacant Space	48	52,280	7	18,400	7	13,200	0	0	11	0	8	14,380	5	0	9	3,800	1	2,500		
Totals	387	2,013,133	67	271,100	153	362,500	20	129,100	34	56,750	38	472,270	43	497,163	23	247,100	9	27,150		
Vacancy Rate		3%		7%		4%		0%		0%		3%		0%		2%		9%		

¹ Based on Stantec windshield survey. Does not factor in large corporate users such as Federated Insurance or Jostens.

Sources: Stantec; Urban Land Institute

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3.2.1 Recent Change in the Types of Service Uses by Location

Commercial land uses are constantly in a state of flux. Table 7 shows the change in the number of uses, the types of uses, and the square footage of space in each commercial district since 2005. Below are key findings from the table.

- Overall, Owatonna experienced a net gain of 62,000 square feet of occupied commercial space and a net loss of 25 users between 2005 and 2013. An increase in occupied square footage with a decline in the number of users, while seeming counterintuitive, is evidence of two important market trends that are impacting the Owatonna market. First, big-box retail stores, though primarily capitalizing on the growth in demand in the trade area, are also limiting the number of smaller, viable stores that offer competitive goods and services. Second, the recent recession has had a very negative impact on certain types of small office users. In particular, travel agencies, real estate firms, and financial planners were especially hard hit.
- Specific categories of users that experienced significant declines in the number of users include Hobby/Special Interest (50% decline), Jewelry (33% decline), Clothing & Accessories (29% decline), Building Materials/Hardware (29% decline), and Home Appliances/Music (25% decline).
- Due to the removal from the inventory of two large vacant properties identified in the previous study (former Walmart on Hoffman Drive and the Heritage Museum), the overall amount of vacant space declined substantially from 158,000 square feet in 2005 to 52,000 square feet in 2013. The removal of these vacant properties due to their repurposing or uncertain future significantly dropped the vacancy rate in the CashWise and Cabela's districts.
- When looking at changes at the district level, the table underscores how older commercial districts have been contracting in size, while at the same time continuing to evolve away from traditional retail toward a wider mixture of other commercial uses, such as small offices and personal services. The South Cedar, Downtown, and CashWise districts all saw significant declines in occupied commercial space over the last eight years. In the case of the South Cedar district, a large portion of the decline was due to Federated Insurance taking over the remaining portions of the Cedar Mall.
- The district that experienced the largest increase in occupied commercial space was the Old Highway 14 area anchored by the Super Walmart. Driven mostly by a new Kohl's department store, the district added over 120,000 square feet of additional retail space.
- The Landmark district experienced the largest increase in the amount of office, adding over 23,000 square feet between 2005 and 2013. This occurred despite a citywide decline of 13,000 square feet during the same period. Much of the office growth in the Landmark district nearly mirrors the decline of office space in the Downtown.

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Table 7: Change in Competitive Commercial and Office Uses
Commercial District Breakdown in Owatonna
2005 to 2013

Category	Change in		Commercial District																		Freestanding		
	Chg in No. of Users	Estimated Trade Area Square Feet	South Cedar			Downtown			CashWise			Landmark			Old Hwy 14			Bridge Street			Cabela's		
			No. of Users	Est. Sq. Ft.	Chg '05-'13	No. of Users	Est. Sq. Ft.	Chg '05-'13	No. of Users	Est. Sq. Ft.	Chg '05-'13	No. of Users	Est. Sq. Ft.	Chg '05-'13	No. of Users	Est. Sq. Ft.	Chg '05-'13	No. of Users	Est. Sq. Ft.	No. of Users	Est. Sq. Ft.		
General Merchandise	1	98,210	0	10,500	-1	-1,500	0	0	0	0	2	98,000	0	1,710	0	0	0	0	0	0	0		
Food	-1	8,750	-2	-6,000	-3	-9,000	-2	-5,500	2	8,000	0	250	0	0	2	2,800	0	2,800	0	0	0		
Food Service	-1	1,610			-1	-1,950										-3,000							
Clothing & Accessories	-2	-5,700			0	0																	
Shoes	0	0																					
Home Furnishings	1	2,200	0	5,000	1	3,000	1	3,000	0	0					1	1,200							
Home Appliances/Music	-2	-5,769			-2	-6,500						0	731		0								
Building Materials/Hardware	-2	-13,000	-1	-10,000	-1	-3,000						0	0		0	0							
Automotive	-3	-2,700	-2	-4,500	-1	-7,800	1	12,100	1	2,500	-1	-3,500	-1	-1,500	0	0	0	0	0	0	0		
Hobby/Special Interest	-4	-8,000			-4	-6,000						0	0		0	0							
Gifts/Specialty	0	0	0	0	0	0																	
Jewelry	-1	-1,500			-1	-1,500									0	0							
Liquor	-1	700	0	0	-1	-1,500						0	2,200		0	0	0	0	0	0	0		
Drugs	0	-10,500	-1	-18,500	1	8,000																	
Other Retail	-1	2,850	-1	-1,500	-4	-13,950																	
Retail Subtotals	-16	67,151	-7	-25,000	-17	-41,700	-1	6,600	4	11,000	3	121,831	3	5,670	3	1,000							
Personal Service	-5	-3,256	-1	-2,000	-3	450	1	0	0	500	1	-356	-2	-6,000									
Entertainment/Community	5	11,585	-2	-7,500	5	4,200	0	0	1	250	0	-1,365	1	16,000									
Service Subtotals	0	8,329	-3	-9,500	2	4,650	1	0	1	750	1	-1,721	-1	10,000	0	0							
Financial Office	-3	2,750	0	0	-7	-9,000	1	3,000	3	6,000	2	6,500	-2	-3,750									
Non-Financial Office	-6	-16,500	-7	-21,550	-7	-13,250	-1	-6,000	6	17,300			3	7,000									
Office Subtotals	-9	-13,750	-7	-21,550	-14	-22,250	0	-3,000	9	23,300	2	6,500	1	3,250									
Totals	-25	61,730	-17	-56,050	-29	-59,300	0	3,600	14	35,050	6	126,610	3	18,920	3	1,000							
Vacant Space	-3	-106,200	5	12,900	-5	-18,050	-1	-70,230	0	0	0	8,380	-3	-2,680									
Vacant Parcels	-7	0	0	0	-1	0	0	0	-5	0	-2	0	3	0	-2	0							
Vacant Space	-10	-106,200	5	12,900	-6	-18,050	-1	-70,230	-5	0	-2	8,380	0	-2,680									
Change in Vacancy Rate		-5%		5.1%		-3.4%		-34.6%		0.0%		1.3%		-0.6%									

Sources: Stantec; Urban Land Institute

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3.2.2 Common Goods and Services Missing from the Trade Area

Despite the significant amount of commercial space, we found Owatonna to be lacking a number of businesses that are commonly found in a community of its size and well-developed commercial market. In particular, we identified many basic uses that could be considered for future development in Owatonna. It should be noted that some of the items and services that would be sold in the following sample of stores could be purchased at other local stores. Nonetheless, we believe that Owatonna's commercial districts could accommodate the following uses:

- Food Service: bakery; doughnut shop; seafood restaurant; Italian restaurant;
- Clothing and accessories: women's ready-to-wear; bridal shop; children's/family wear;
- Shoes: women's shoes; athletic footwear;
- Home Appliances/Music: audio/video
- Hobby/Special Interest: arts and crafts; health/wellness equipment; toy store
- Personal Services: formal wear/rental; day spa.

Businesses that specialize in many of the above uses may consider entering the Owatonna market, but none are a high-frequency user that would individually generate traffic in large amounts. Therefore, these uses would more typically occupy space in a multi-tenant building (strip center), where they would be most likely to capture business from traffic drawn by a nearby anchor user. For some businesses, particularly restaurants, developable "outlots" near a big-box store are highly desirable.

It should be noted that a 2005 study identified department store and tobacco shop as types of businesses that may be lacking in Owatonna. Since that original study, though, a major department store chain, Kohl's, opened as well two separate tobacco shops. Furthermore, since 2005, several business types are no longer present in Owatonna. This could be result of store closures, relocation of business to non-commercial space (such as a home), or the products/service are now only available in general merchandise stores. These include mailing/package stores, photographers, fabric shop, bead shop, art galleries, antiques shop, bagel shop, and athletic sportswear stores.

3.3 PENDING COMMERCIAL DEVELOPMENTS IN OWATONNA

Our conversations with the City's Community Development Director and representatives of the Owatonna Chamber of Commerce led us to multiple commercial developments pending in the city. Any new commercial space in the community will likely affect local shopping patterns, and the following discussion describes the scope of each project, commenting on their potential to alter consumer shopping in Owatonna.

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South Cedar District

- There are plans to tear down an old Hardee's and replace it with an 8,000 square foot office building with space for two tenants at the intersection of Oak Avenue South and Barney Street. Adjacent to the former Hardee's site on a site formerly occupied by a Citgo gas station, there are plans to build a new 4,500 square foot retail strip center .
- Fareway Stores is planning to build a new 30,000 square foot grocery store at 831 Oak Avenue South on a portion of the former hospital site. The south side of Owatonna is currently served by only one full-service supermarket (Hy Vee) and a second supermarket will definitely enhance food offerings for residents and workers in this part of the City. It will be important to see how Fareway positions the store on their site as the hospital area, though between Downtown and the heart of the South Cedar district, is surrounded by other commercial uses to help draw customers.

If completed, the three proposed new developments along Oak Avenue South will significantly improve the appearance and character of the northern end of the South Cedar district, which has been marred in recent years by several closures. The traffic generated by a second full-service supermarket, a new office building, and a retail strip center has the potential to spur interest among property owners and/or developers to consider other nearby sites for new investment or redevelopment.

Landmark District

- There is a preliminary proposal for a new convenience store to be located at the intersection of 26th Street and North Cedar Avenue. This store will occupy a prime site at this emerging commercial district and will contribute to increased visibility and awareness of the area as a location for additional development. There already is an existing gas station/convenience store located just east of the proposed site. However, it is not located at an intersection and, therefore, cannot take advantage of maximum visibility and access. Therefore, the proposed convenience store project, if built, will likely become the primary gas station/convenience store location in this district. Furthermore, the closest supermarkets to the residential neighborhoods surrounding the Landmark district are located further south along Hoffman Drive. Thus, a well-stocked store at this location has the potential to generate significant sales that are non-fuel related.

Old Highway 14 District

- A 16,000 square foot Aldi's grocery store has been proposed near the intersection of the 24th Ave NW and Hoffman Drive in the Old Highway 14 district. Aldi's is a discount grocery store that emphasizes dry goods over fresh produce. Typically smaller than most supermarkets, Aldi's will generate traffic within the district and fill a food store niche currently not in the market. Given that the Owatonna market does not have a

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membership-oriented discount food store, such as a Costco or Sam's Club, Aldi's has the potential to meet some of that market demand.

- Panda Express is planning to build a 2,000 square foot store on an outlot in front of Walmart with drive thru service. In addition, there is another similar sized "pad" in the same vicinity that is available for immediate development, which has attracted attention from similar national retailers. The addition of these two sites as locations for national retailers will further cement the Old Highway 14 district as the district with the critical mass of existing stores and space to attract major national chains.

Bridge Street District

- The existing Target store, built in 1996, is one of the smallest stores in the chain. Given Target's commitment to upgrade many of their smaller stores, it is possible that their Owatonna could undergo a significant remodel in the near future. Although the current location is somewhat constrained and isolated from smaller, complementary stores located east of I-35 in this district, an enhanced Target store would definitely help maintain strong traffic volumes in the district and possibly spur the redevelopment of nearby non-commercial sites into commercial uses. This would likely be especially true of the sites adjoining Park Drive and Bridge Street.

Cabela's District

- Just south of Cabela's along Frontage Road West, Walser Automotive has plans to locate a new 30,000 square foot automobile dealership. Although automobile dealerships are dependent on highly visible locations, like other retailers, they typically don't benefit from or contribute to the critical mass often needed for successful commercial districts. Therefore, the likely impact this project will have on the commercial market in Owatonna is minimal.

Another important development project in Owatonna that may have an impact on the City's commercial market is the recently announced addition/expansion of Viracon. From a land use perspective, new real estate investment by Viracon will likely prevent any potential redevelopment opportunities of land controlled or adjacent to Viracon's facilities. More importantly, though, the commitment by Viracon to reinvest in Owatonna is a positive and powerful signal that the community is growing and focused on the future. Although the initial investment by Viracon may not necessarily result in enough new jobs to drive significant demand for new commercial development, it opens the broader real estate community to the direction Owatonna is heading.

3.4 COMMERCIAL SUPPLY ANALYSIS CONCLUSION

Owatonna's commercial market contains a wide variety of uses, fitting into virtually every category in the retail/service spectrum of offerings. We identified seven distinct commercial districts in the community, in addition to a small number of freestanding uses. Citywide

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vacancies are relatively low, and, overall, the city's commercial market appears to be very healthy, a trait that can be traced to a number of factors.

First of all, the distribution of concentrated districts at key gateways and in developing areas, coupled with the lack of freestanding businesses, improves the overall shopping experience for both local and non-trade area consumers. This also points to sensible planning efforts from city officials and developers, alike.

Secondly, recent investment, either through new development, redevelopment or expansion, can be noted in virtually every district. National and regional retailers recently built new freestanding stores or entered multi-tenant centers in the Cabela's, Old Highway 14, South Cedar, CashWise and Bridge Street Districts. The Landmark District is well-positioned to capture local spending from neighborhoods in the developing northern edge of the community. Though its commercial footprint has contracted in recent years due to the obsolescence of aging buildings and impacts from the recession on certain office submarkets, the Downtown still maintains a strong presence, and its history as the community's business center, as well as its strong employment base, suggest that a wide variety of uses may be supportable on key redevelopment sites in the future.

Thirdly, the addition of popular big-box stores at key interchanges along Interstate 35 has significantly raised Owatonna's profile as a commercial center in south-central Minnesota, thereby expanding its ability to attract spending from beyond its local trade area boundaries. These developments have also led to spin-off development on nearby outlots and frontage sites. Not only has this strengthened its pull from trade areas to the south, but it has also improved its competitive position in relation to nearby commercial centers to the north, such as Faribault and Northfield.

Our review of the City's pending commercial projects revealed that new investment will likely be limited to small-scale projects designed to fill gaps in the market within individual districts. We do believe that a number of additional small businesses could be successful if added to the community, and the market's interest in key sites along I-35 could lead to additional junior-box development. The ensuing section more closely examines the future possibilities in Owatonna by examining each of the commercial districts' strengths, weaknesses and opportunities.

In essence, the overall variety of retail and service offerings in Owatonna has continued to expand over the past eight years, despite a strong downturn in the economy starting in 2008. Owatonna's commercial market supply is strong and growing, albeit at a slower pace than what occurred in the late 1990s and early 2000s. A later section of this report more closely examines this market trend by reviewing the actual development of commercial buildings over the past 20 years, projecting achievable rates of commercial land absorption in Owatonna through 2023.

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4.0 Commercial Districts: Strengths, Weaknesses, and Recommendations

Each of Owatonna's commercial districts is distinct and recognizable in the community. However, various factors come into play when evaluating a commercial district's viability and long-term potential: traffic, access, business types, visibility, surrounding development patterns, etc. We provided an overview of each of Owatonna's seven districts earlier in this report. This section identifies opportunities for each district, through an assessment of their strengths and weaknesses, culminating in brief and direct recommendations for future development.

4.1 SOUTH CEDAR DISTRICT

Strengths: As the only commercial district in the southern section of Owatonna, this district caters to a captive surrounding neighborhood. It is also the primary gateway into the city from traffic along Highway 14, which has been improved west of I-35, and northbound Highway 218. It also functions as Owatonna's recreation and entertainment center with the fairgrounds, softball fields, ice rink, and nearby ballroom. These uses are often an excellent complement to retail, though the traffic they generate can be seasonal or intermittent.

The district contains a wide mix of businesses, and Federated Insurance has recently fully renovated the former Cedar Mall into new office space, which serves over 1,000 employees. Hy-Vee rebuilt and expanded on an existing site further strengthening its position as a key anchor for the district. Moreover, newly proposed developments along Oak Avenue South on the northern edge of the district and a possible new hotel will help rejuvenate portions the district.

Weaknesses: Though its location is good for surrounding residents, the district is very isolated in terms of where the current commercial activity is highest in Owatonna. The former Cedar Mall no longer has retail tenants and other buildings in the district lack a cohesive form. This underscores the fact that the area used to be a regional retail draw and now functions as a neighborhood retail center complemented by intermittent recreational and entertainment activity.

Recommendations: With the subtle shift in the draw area of the district, future retail/service uses should cater to surrounding neighborhoods and traffic driven by the recreation and entertainment uses. It should be expected that there will be additional churning and building changes as some of the remaining regional or chain uses (e.g., Sherwin Williams) move out to the highway districts and neighborhood uses remain. Redevelopment is an issue due to the condition of some of the formerly regional spaces.

4.2 DOWNTOWN DISTRICT

Strengths: Downtown has long been the central business district in Owatonna and continues to maintain a relatively strong commercial presence, especially when compared to other

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downtowns in Greater Minnesota. Vacancies are comparatively low, and largely isolated to the edges of the district. Corporate offices bring a strong, steady flow of employees to the district. It is also located near the Straight River, a strong potential amenity. Another study is needed to determine the best uses along the river, however. Moreover, the district has important assets that set it apart from the other districts in the City, which include its aesthetic character, historic nature, eclectic mixture of uses, and unique shops.

Weaknesses: While it has performed well, Owatonna's downtown is not immune from the issues facing many communities in Greater Minnesota. Disparate ownership of the many properties throughout the Downtown makes it difficult to coordinate improvements. Lower rents, which can sometimes be one-half or even one-third of what is commanded in other districts, are a barrier to reinvestment, and, given the age of most properties, is a serious threat to their viability. Moreover, considerable pressure will continue to be exerted by the new development at the Interstate districts. Downtown's declining retail presence implies less foot traffic, making it difficult to open a new retail business. Furthermore, it is not located at the highway and the route to the nearest highway is somewhat circuitous and does not take visitors directly into the most appealing portions of the Downtown.

Recommendations: Residential development should be encouraged in and near the Downtown District, particularly amenity sites (such as along the Straight River or adjacent to the town square). The city should promote the development of niche uses that serve daytime workers as well (such as a drug store or lunch spots). We believe that the City should continue to improve the district's appearance through streetscaping and façade improvements. It should also work to support the development of office and service businesses, and strive to maintain the presence of major employers in the district. Experiential retail is also a niche that should be explored and perhaps promoted. Any new development will need to be in character with the historic district. Wayfinding should be implemented throughout the community that directs visitors to the downtown, especially at the highway interchanges. Example communities that have leveraged character-rich downtowns into experiential retail and services include Stillwater and Red Wing. Entrepreneurship should be encouraged in both retail and service sectors. Parking and pedestrian connectivity should be periodically reviewed for where improvements and upgrades can be made.

4.3 CASHWISE DISTRICT

Strengths: CashWise Foods is a strong anchor presence in this small district. Its location near Exit 42 on I-35 positions it as a "gateway" to much of greater Owatonna, especially the Downtown District. Developable and redevelopable land exists to readily facilitate new business interests. The potential redevelopment of the former Walmart building into new retail uses could act as a catalyst for further investment into the district.

Weaknesses: Despite the fact that its location is near a freeway exit, it does not have good highway visibility and the recent and current retail growth is occurring on the west side of the exit, in the Old Highway 14 District. Surrounding industrial uses and railroads also pinch the

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district. If the vacant Walmart property is not redeveloped into new retail uses or is converted into industrial uses, this may serve to further erode the critical mass of the district needed to attract new users and, over time, the district may likely decline due to the number of stronger nodes in close proximity to it.

Recommendations: Without redevelopment of the former Walmart into new retail uses, the district's future as a significant retail node may be questionable. Therefore, if the current proposals to redevelop the vacant Walmart site do not materialize, it may be beneficial in the future to consider encouraging relocation of businesses to nearby districts such as Old Highway 14, Downtown, and particularly Landmark as appropriate. Regardless of the direction of future uses in the district, as a gateway to Owatonna, this district could benefit from beautification and streetscaping elements.

4.4 LANDMARK DISTRICT

Strengths: The future growth of residential neighborhoods surrounding this site is its strongest asset. It is positioned strongly to capture consistent convenience and basic retail/service spending as the area evolves. Though momentum has not really "kicked-in" yet, the development of a few parcels is a good indicator of the site's marketability, especially to independent businesses or small chains.

Weaknesses: Unfortunately, surrounding growth has not reached a level where the market has been ready to respond beyond mostly small professional buildings and one restaurant. Though positioned well to capture nearby spending, the district is largely isolated from the remainder of Owatonna with little or no residential north and west of the district, and is not located along a key artery such as a state or US highway. Essentially, the district's trade area remains limited until additional growth occurs.

Recommendations: Most importantly, the city should support additional residential development in the surrounding neighborhoods to improve the marketability and sustainability of this district. It is likely that near term demand will be for low traffic uses such as professional offices, although a drug store or similar small trade area use is a possibility.

4.5 OLD HIGHWAY 14 DISTRICT

Strengths: Its location at a key intersection, the presence of three big-box anchors, and considerable development momentum position this district as the most marketable in Owatonna, both currently and for the foreseeable future. Users are modern and popular retail tenants. Additional property remains for future development immediately north of the district, much of which commands excellent visibility from passing traffic on I-35. A frontage road also connects this district to the 26th Street exit, providing access from multiple freeway interchanges. The center is well positioned to serve the Trade Area and visitor traffic.

Weaknesses: Though consumers are likely to travel to the district from many points, its location is somewhat disconnected from much of residential Owatonna. Local consumers can more

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efficiently make high frequency purchases by visiting other districts. As well, access to/from the district is funneled through just one access point, presenting traffic management issues. Furthermore, the layout of recently constructed buildings has impacted the site lines for some properties and contributed to spotty vacancy issues, despite significant attention among national retailers to want to locate in the district. In addition, there is a highly visible use that is not compatible with large retail centers (adult uses).

Recommendations: Currently, the “sky’s the limit” in this district. The city should remain disciplined in its approach to developing this district by encouraging uses that will strengthen the overall market and limit cannibalization of existing businesses. Another two to four “junior”-box projects could be considered to “round-out” the mix of such uses (arts and crafts, audio/visual, health facility, etc.). New hospitality space could be an opportunity, but more focused research should be commissioned before proceeding. Land to the north could accommodate small office uses associated with the new hospital, in addition to new retail/service space that will likely be developed. Clearly, however, access to/from this district needs to change to help the development potential. Access could be improved with modifications to the 26th Street NW interchange which would spur growth in the short term, but since this might be largely relocation of uses from other districts, a cost-benefit analysis may be in order for the interchange upgrade. Furthermore, redevelopment of the district’s gateway corner could catalyze other opportunities and contribute to beautification.

4.6 BRIDGE STREET DISTRICT

Strengths: Unlike Owatonna’s other freeway interchange districts, new commercial investment has recently occurred on both the east and west sides of the Bridge Street exit. Two big-box stores with strong, local reputations, Fleet Farm and Target, along with the Northwoods Cinema 10, give the district three solid anchors. National and regional chains have recently moved into small spaces in the district, achieving better than expected returns. Land remains, though limited, for new development or redevelopment on both sides of the freeway. The district is centrally located with approximately half of the City to the north and half to the south. Moreover, the highway access to the district is excellent.

Weaknesses: Though a strong presence, both of the big-box anchors are situated a slight distance from most of the ancillary retail (across the freeway) on lots that are too small to develop with significant outlots or other ancillary retail. Much of the land use along the western side of the freeway is industrial, making the retail uses seem somewhat out of place and remote. The nearby industrial uses limit any retail expansion opportunities and visually separates the area from the Old Highway 14 district. Though developable land exists near the new movie theatre, it is set back about a block from the main thoroughfare (Bridge Street) and therefore could be challenging as a retail location but may be appropriate as a small office/service location.

Recommendations: Ancillary retail/service space should be considered for the west side of the Interstate, near the two big-boxes. In particular, consideration could be given to encourage the

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development of outlots in Fleet Farm's parking lot and to take full advantage of the stoplight. It does not seem to be feasible from a market perspective to expand this district northward by redeveloping any industrial land. Adequate vacant land exists in the Old Highway 14 district for future retail expansion of this type. Vacant land near the Northwoods Cinema could accommodate multifamily housing, small office space, or a mix of uses.

4.7 CABELA'S DISTRICT

Strengths: This district is the most recognizable commercial district from non-trade area residents, and pulls an estimated 4 million shoppers, annually, from Minnesota, Iowa and Wisconsin. Interest in the remaining developable parcels remains extremely high, despite relatively high-priced land. Popular regional chain restaurants have added considerably to the local perception of Owatonna's food service offerings. Its northern location positions it to capture a strong amount of southbound traffic along I-35. In addition, fly-in day traffic from the airport as well as hospital/clinic employees and visitors add to the market for this district.

Weaknesses: Though a strong regional draw, this district is detached from the remainder of Owatonna's commercial districts, limiting its ability to feed destination spending to other local businesses. Traffic has been affected in recent years by the state's second Cabela's store in Rogers and may be affected even more so with a soon to be third store in Woodbury or a Bass Pro Shop at the Mall of America. According to local experts, the Cabela's traffic does not necessarily translate to high spending at all new spin-off businesses, but is more isolated to hotels, restaurants and convenience stores within the district.

Recommendations: This district is primarily a stand-alone destination attraction. Exit signs along I-35 read "Clinton Falls" though most consumers associate the area with Owatonna; the possibility of a signage change could be helpful, if feasible. Though interest may be high, traditional retail/service business development should increasingly be encouraged in districts closer to built-up Owatonna. Consideration could be given to wayfinding in this district for Downtown Owatonna in order to introduce visitors to the experiential and unique retail opportunities in Downtown as much of the Cabela's district includes chain restaurants. This could help establish Downtown Owatonna as a tourist destination in its own right.

4.8 NEW HIGHWAY 14 DISTRICT

The opening up of the new US Highway 14 west of Owatonna will alter traffic patterns in the trade area, creating a faster, safer, and more straightforward connection to Mankato. Most of the land immediately west of the intersection of US Highway 14 and I-35 is currently guided for industrial uses, which is a logical extension of the current industrial activity just north of this area. However, with increased traffic in this area, there is potential to attract commercial development as well.

Overall, we believe the potential for traditional commercial uses such as retail and office space is limited and should be kept to a minimum if at all possible because of the challenging access to sites with the highest visibility to I-35. (The access to this area is several thousand feet west

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of the I-35 interchange.) With that being said, though, we believe this area may be attractive to industrial users who have retail-type functions. This could include certain types of suppliers who sell on both a retail and wholesale basis, such as lumber yards, implement dealers, or garden centers. It could also attract retailers with a warehouse-concept, such as Costco or Sam's Club, although it would be strongly recommended to have these uses in one of the other retail districts to prevent dilution of critical mass. Truck stops would be another commercial type use that may be appropriate for the district given the easy access to the highway and separation from residential uses. Self-storage facilities are another quasi-commercial use that could be attracted to the area as well.

Our recommendation is to minimize the access challenges to the most visible sites at the interchange by developing a simple, non-circuitous internal roadway system (i.e. frontage road).

5.0 Commercial Space Needs: 2013-2023

The bulk of Owatonna's future need for land designated for commercial space will be generated through growth in the local residential spending potential and through growth in the local job base. Owatonna is somewhat unique in the regional market, though, implying the need to account for heightened traffic (destination shoppers) and considerable recent momentum in the commercial development industry.

To determine land needs to accommodate the projected growth in local commercial and industrial space, we reviewed development activity in Owatonna over recent years, examined residential growth projections in the trade area, took into account unique market characteristics (high traffic from destination uses, recent surge in building, etc.) and relied on our experience in the industry.

5.1 HISTORIC COMMERCIAL SPACE DEVELOPMENT 1992 THROUGH 2012

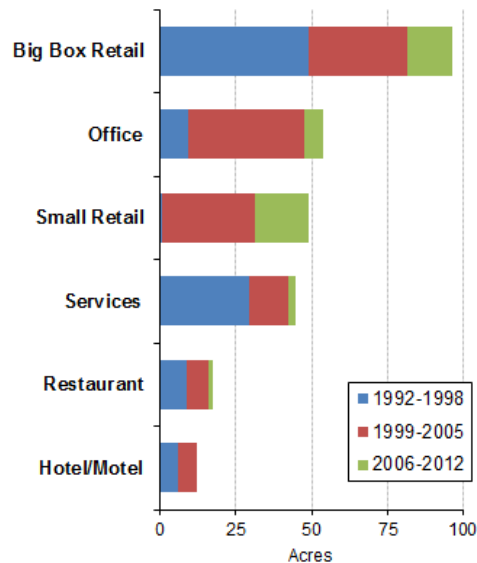
City development records revealed that commercial construction during this period has spanned many use types, building sizes and locations throughout the community. The graphics in this section break down commercial development over the past 20+ years in Owatonna, measuring acreage, total square footage, and the average building sizes added to the community since 1992.

5.1.1 Commercial Acreage Added by Type

Ninety-one (91) new buildings were added to Owatonna's commercial market between 1992 and 2012. Uses included retail (both big-box and small-space), restaurants (measured separately from retail), office, service businesses, and hotels/motels. The 91 projects (containing 1.5 million square feet) were built on 274 acres. While some of these projects were developed on redevelopment or infill sites, most were developed on raw land.

The graphic to the right shows the commercial acreage added during three development periods spanning a total of 20 years, broken down by each of the use types described above. The graphic shows that about one-third of all new commercial acreage (97 acres) was developed for big-box retail projects such as Lowe's or Cabela's. The office, small-scale retail, and service categories each added between 45 and 54 acres of land during this period, whereas, the restaurant and hotel categories each added between 10 and 20 acres of land. It is notable that during

Figure 3: Commercial Building Trends
Commercial Acreage Added
City of Owatonna
1992-2012



Sources: City of Owatonna; Stantec

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the last seven years when the recession was impacting growth and development, small-scale retail and big-box retail, though slower than earlier periods, managed to use significantly more land than each of the other use categories.

5.1.2 Commercial Space Added by Type

Not surprisingly, the big-box retail category added the largest amount of space to Owatonna's market between 1992 and 2012 (nearly 700,000 sq. ft.). Since 2006, city records show that two buildings were added in this category, with Kohl's and a replacement Hy-Vee totaling about 140,000 square feet.

Small-scale retail buildings accounted for the next largest category of building space with nearly 240,000 total square feet of new development. Most of the development however, has occurred since 2000. Office and services categories each added approximately 200,000 square feet of space over the past 20 years, with office adding space primarily in the early 2000s and services split between the 1990s and early 2000s.

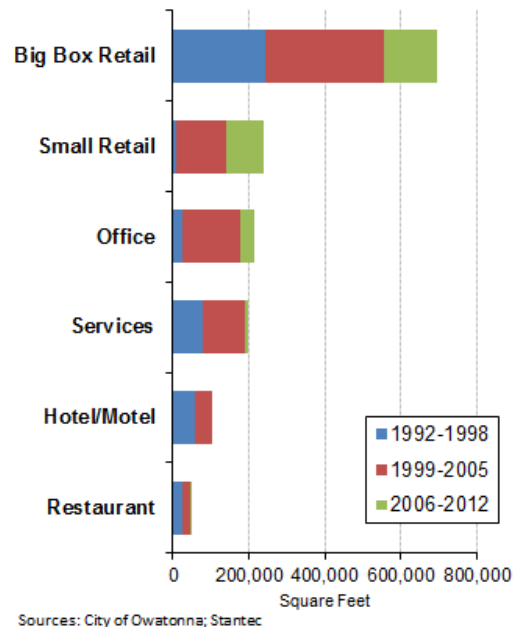
After a wave of hotel/motel development in the 1990s, there has been no new development since 2000. Freestanding restaurant space also had a flurry of development in the late 1990s and early 2000s, but has since been very limited.

5.1.3 Average Building Sizes by Type

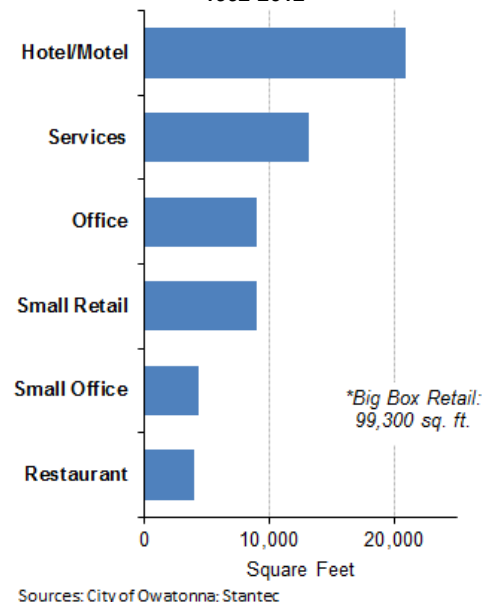
The graphic to the right shows the average building sizes added by type between 1992 and 2012 in Owatonna. For this graphic, we removed the big-box retail category (99,300 sq. ft. per building, on average) and focused on the remaining use types. We also reviewed average sizes in the total office category, and measured sizes of small offices by removing a large clinic built 2001 from the equation.

Measured against one another, the graphic shows that the average hotel/motel contained just over 20,000 square feet of space, while, at the opposite end of the spectrum, the average restaurant contained just below 4,000 square feet.

**Figure 4: Commercial Building Trends
Commercial Space Added
City of Owatonna
1992-2012**



**Figure 5: Commercial Building Trends
Average Building Size
City of Owatonna
1992-2012**



Total offices average nearly 9,000 square feet, but small offices averaged only 4,300 square feet in size. Not including the 116,000 square foot clinic built in 2001, the largest new office project contained only 6,500 square feet of space.

While each of the measurements noted above provide merely descriptive data, they should be helpful to the city when planning for new development within the various categories. It should improve a developer's ability to identify sites that could readily accommodate their specific interest, as well.

5.2 COMMERCIAL ACREAGE NEEDS 2013 THROUGH 2023

The city's development records revealed that the 274 acres developed between 1992 and 2012 contained 1.5 million square feet of space. This translates to a gross coverage ratio of 5,474 commercial square feet per acre (13% building-to-land coverage)⁶. Comparing the existing commercial space totaling 2.01 million square feet in the community (Table 6) to the estimated trade area household count in 2013 (15,377 households), we identified an overall ratio of 131 square feet of commercial space per trade area household. Based on our experience, this is a high rate and is indicative of a supply-heavy market.

However, as noted earlier, Owatonna's commercial supply has a unique ability to draw considerable destination consumer traffic due to its location and the draw power of Cabela's. Our comparison of trade area spending potential and retail/service sales generated in Owatonna⁷ explained the extent of this disparity. We noted that approximately \$75 to \$85 million in sales is generated in the Leisure Goods category; we believe that most of this spending emanates from beyond the trade area boundaries. This disparity also approximates the difference noted between the trade area's estimated 2013 resident spending potential (\$297 million) and the estimated 2013 total sales (\$396 million).

Given these unique dynamics in the local market, the supply-heavy market in Owatonna does not necessarily denote an "over-supplied" market. More likely, as stated in the Commercial Demographics section, we believe that Owatonna serves its residents well, and pulls many consumers from outside the trade area.

Between 1998 and 2005, Owatonna developed at a rate of over 18 commercial acres per year, which led to a high retail supply⁸. With resident demand seemingly satisfied in 2005, it became apparent that the market would be unlikely to continue to develop at such an aggressive rate. And, it didn't. From 2006 to 2012, annual commercial development dropped to about 6 acres

⁶ This number is well below the 25% average. Therefore, the City may want to consider evaluating parking regulations to ensure they are not requiring excess parking for retail uses. Of course, this number may also reflect land that was partially developed with the intent to expand in the future.

⁷ See page 2.8.

⁸ Rapid commercial development of big-box retail stores in the 1990s and early 2000s was a somewhat of statewide phenomenon and not entirely unique to Owatonna. Particularly in larger urban centers, Minnesota experienced an aggressive expansion of national big-box stores that brought retailers such as Walmart, Home Depot, Lowe's, Kohl's, multiplex theaters, and junior boxes to the state during this period.

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per year. We believe it is unlikely that Owatonna will achieve a rapid rate of commercial development similar to the early 2000s any time soon. Continued residential and employment growth will increase demand for additional retail space, especially among use types currently not present in the market.

It will be very difficult to attract more big-box retail stores and/or destination users with draw power anywhere near that shown by Cabela's or Super Walmart. Though we think two to four additional junior boxes (30,000 to 60,000 square feet) may enter and "round out" the market, new commercial space will be, overall, smaller in size. With that being said, there definitely is the potential for existing big-box stores to renovate or expand thus solidifying their position in the market. New space will also position itself to accommodate residential growth potential noted in the trade area over the next ten years.

Table 8 shows our projection of Owatonna's commercial space needs through 2023, based on trade area household growth and achievable rates of retail and service office space development.

Table 8: Commercial Acreage Needs Through 2023
City of Owatonna

	Stantec Projections
2013-2023 Household Growth	1,300
	x
New Retail/Service Space per Household (sq. ft.)	100-130
	=
Total New Retail/Service Space by 2023	130,000 to 170,000
	/
Space per Acre (20% Floor:Area Ratio)	8,700
	=
Land Needed for Retail/Service Growth	15 to 20 Acres
	+
Land Needed for Small Office Growth	5 to 7 Acres
	+
Land Needed for Industrial Retail/Truck Plaza	15 to 20 Acres
	=
Total Land for New Commercial Growth	35 to 47 Acres

Source: Stantec

Overall, we project a need for between 35 and 47 acres to accommodate new commercial space. The projection assumes a floor:area ratio of 20 percent (8,700 square feet per acre) and an average of 100 to 130 square feet of retail/service space per new household.

- We project 15 to 20 acres (130,000 to 170,000 sq. ft.) of retail/service space demand from trade area household growth alone.
- 5 to 7 acres should be set aside for new smaller-space office development.

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- 15 to 20 acres should be set aside for quasi-retail uses in less prime retail locations, such as the area just west of I-35 and the new US Highway 14.

6.0 General Commercial Market Recommendations

The preceding sections of this study presented and analyzed key variables that affect the potential for Owatonna to realize commercial growth. This section presents recommendations for the City of Owatonna to consider in maintaining and improving its strong commercial position, to both better serve residents and to continue to compete strongly in the region.

6.1 GENERAL COMMERCIAL MARKET RECOMMENDATIONS

1. **Focus on residential and job growth to strengthen existing and future commercial base.** New jobs are the strongest way to build a sustainable, long-term commercial base. New jobs attract new residents and create spin-off spending by daily workers and the businesses themselves. Increasing the local employment base also opens opportunities for increased office-service businesses.
2. **Embrace smaller-scale commercial development, as the bulk of the big-box building boom has mostly passed.** With perhaps the exception of the Highway 371 corridor in Baxter, we have not witnessed commercial development in (non-Metro) Minnesota on the scale and at the pace noted in Owatonna over the past 10 to 15 years. While we believe that another two to four junior-boxes will likely develop over the coming decade, the boom period has passed.
3. **Maintain disciplined planning by not creating new commercial districts.** The existing districts still have a great deal of undeveloped land or redevelopment potential. The city should work to see raw land developed, and key sites redeveloped in existing districts, before creating new ones. This is especially true of the area just west of the I-35 and the new US Highway 14 interchange. From a market perspective, this area may see commercial development pressure for certain types of quasi-retail uses, which may be acceptable because they wouldn't impact retail in any of the existing districts. However, encouraging or even planning for the area to become another key retail district for Owatonna could potentially result in cannibalization of the existing districts with a new district in an inferior location for traditional retail. Furthermore, Owatonna's highway oriented retail is already at risk of dilution due to the large number of highway interchanges given its population. Efforts, therefore, should be focused on pruning and strengthening in existing districts, not creation of new, competitive areas.
4. **Consider long-term strategies for the potential reuse of big-boxes or similar sites that end up lacking the "staying power" to survive, long-term.** The long vacant Walmart building on Hoffman Drive is symptomatic of the constantly evolving nature of retail development. It is probable that some of the larger format businesses will either fail or move on to other buildings in the future. The reuse potential of these buildings is extremely limited and they can sit vacant for years, barring a sensible "exit strategy." Recent research has been conducted on this phenomenon and city officials should be

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encouraged to review successful reuse scenarios. Currently, the most likely candidate would be the existing Target store which is site constrained and an older, smaller format.

5. **Be prepared for increased competition from other cities, key intersections to the north, and the Internet.** As the I-35 corridor develops, and the southward growth of the Twin Cities continues to sprawl, competition for spending in the corridor will increase. In particular, the development of a second and soon to open third Cabela's store in the Twin Cities area may further erode local sales tax revenue.
6. **Measure the health of Owatonna's commercial market via quantitative benchmarks on an annual basis, such as the following:**
 - a. Total occupied square footage by use segment (retail, service, office, entertainment, etc.)
 - b. Sales increases
 - c. Hotel occupancy levels
 - d. Pedestrian and car traffic
 - e. Information requests to the Chamber and Business Incubator
 - f. Commercial space vacancy rates and length of time to fill them
 - g. Rental rates for commercial space
 - h. Customer satisfaction surveys
7. **Recognize and embrace the Downtown District's shift from a retail center to an office/service hub and a location for more experiential retail in which the unique character of the buildings, streets, and other public amenities will drive demand.** Retail space continues to leave the district, and our interviews revealed that the cost to open a new business downtown can be high and slow to recoup in its evolving state. We believe that existing retailers with strong reputations should continue to perform well, but that, increasingly, the district will evolve into an office/service center, and a niche retail market that leverages the experience one might have in visiting the Downtown because of its pedestrian scale, mixture of eclectic uses, unique shops, historic character, interesting architecture, walkable environment, and nearby amenities, such as the town square and Straight River. Retailers that tend to thrive in these environments include independently operated restaurants, boutiques, specialty goods and services, and nightclubs. Therefore, it will be important to maintain, protect, and, if possible, enhance the unique downtown environment through continuous streetscape upgrades, storefront improvement programs, and strategic rehabilitation of key properties to name but a few potential tools and strategies.
8. **Consider how design changes at the 26th Street NW and West Frontage Road intersection may enhance the development potential along West Frontage Road.** The area along West Frontage Road north of Kohl's to 26th Street NW represents the best opportunity to capture new, larger-scaled commercial in the City. It is adjacent to

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the growing Old Highway 14 district and has interstate access from both the south and north. However, access from the north could greatly be enhanced with a redesign of the intersection at 26th Street NW. Given the relative equilibrium of the current retail market, it may be beneficial to perform a cost-benefit analysis of improving this interchange since it could largely result in relocation of existing businesses rather than create new ones in the short term.

9. **Focus efforts on defining key market niche identities for each shopping district.**

Establishing identities for Owatonna's commercial districts will help clarify, communicate, and efficiently coordinate economic development activities (e.g., where to steer developer interest, which kind of tool to use, which kind of grant to apply for, which kinds of zoning changes should be considered, etc.). Below are suggested market niche identities to consider for each district.

- a. **Cabela's:** visitor orientation, large scale
- b. **Old Highway 14 and Bridge Street:** Highway oriented and general retail suitable for less frequent (1-2 x per week) shopping. Larger scale formats. Chain restaurants and largely national retailers.
- c. **CashWise:** if the former Walmart property does not redevelop into new retail uses, consider whether this district serves any long term niche or should be transitioned to other uses.
- d. **Downtown:** small eclectic mix of unique shops, dining and entertainment uses mixed in with employment. Historic character and high amenity streetscape. Encourage tourist retail in the Cabela's district to extend trips to the Downtown.
- e. **Landmark and South Cedar:** Owatonna lacks true neighborhood retail nodes and these two districts should be focused on high frequency, small radius uses such as convenience store, drug store, grocery, professional services, etc.

Appendix A

ULI: Specific Users by Broader Retail and Service Categories

General Merchandise

Department Store
Junior Department Store
Variety Store
Discount Department Store
Showroom/catalog store
Warehouse club
Dollar Store/ novelties

Food Service

Restaurant (without liquor)
Restaurant (with liquor)
Cafeteria
Cocktail lounge
Doughnut/ muffin shop
Ice cream parlor
Yogurt shop
Pretzel shop
Cookie shop
Sandwich shop
Hot dogs/ corn dogs
Hamburger
Barbecue
Seafood/fish and chips
Potatoes/French fries
Pizza
Chicken/turkey
Salads/fruit
Coffee/tea
Drinks/juice/lemonade
Bagels
Chinese fast food
Japanese fast food
Other Asian fast food
Mexican fast food
Other Latin American fast food
Greek fast food

Shoes

Family shoes
Women's shoes
Men's and Boy's shoes
Children's shoes
Athletic footwear

Food

Meat, poultry, and fish
Specialty foods
Delicatessen
Bakery
Candy and nuts
Dairy products
Health foods/ supplements
Supermarket- full line
Warehouse
Convenience Market
Gourmet grocery
Italian fast food
Other European fast food
Middle Eastern fast food
Popcorn
Steak/roast beef
Caribbean fast food
Other fast food/ carry out

Home Furnishings

Furniture
Lamps
Floor coverings
Curtains and drapes
China and glassware
Bath shop/linens
Home accessories
Cutlery store
Kitchen store
Container store
Closet store

Building Materials/ Hardware

Paint and wallpaper
Hardware
Home improvements
Specialty hardware

Automotive

Automotive (TB&A)
Service station
Automobile showroom

Home Appliances/ Music

Appliances
Audio/video
Sewing machine
Records and tapes
Musical instruments
Gourmet cookware
Computer/software
Electronics- general

Clothing and accessories

Women's specialty
Women's ready-to-wear
Bridal shop
Maternity
Hosiery
Hat shop/ millinery
Children's wear
Men's wear
Family wear
Fur store
Jeans shop
Leather shop
Uniform shop
Special apparel/unisex
Costume jewelry

Jewelry

Jewelry

Liquor

Liquor/wine

Drugs

Drugstore/pharmacy

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ULI: Specific Users by Broader Retail and Service Categories
(continued)

Gifts/ Specialty

Imports
Luggage and leather
Cards and gifts
Candle shop
Books
Decorative accessories
Stationery
Newspapers/magazines
Movie studio store
Christmas store
Party store
Aromatherapy store
Calendar store

Personal Services

Women's hair salon
Men's barber
Shoe repair
Dry cleaner
Laundry
Photographer
Formal wear/ rental
Interior decorator
Travel agent
Key shop
Unisex hair
Film processing
Photocopy/fast print
Rental shop
Videotape rentals
Tailor
Weight loss center
Mailing/packaging
Nail salon
Tanning salon
Picture framing
Tattoo parlor
Day spa

Entertainment/Community

Post office
Music studio and dance
Bowling alley
Daycare and nursery
Lottery
Heath club
Martial arts
Armed forces recruiting
Learning center/college
House of worship
Cinema-general
Cinema-special format
Video arcade
Children's play gym
Gaming/wagering parlor
Performance club
Other entertainment attraction

Financial

Bank
Savings and loan
Finance company
Brokerage
Insurance
Real estate
Automatic teller machine

Offices (Other than Financial)

Optometrist
Medical and dental
Legal
Accounting
Employment agency
Government
Veterinary
Other office

Other Retail

Fabric shop
Tobacco
Pet shop
Flowers/plant store
Telephone store/telecom store
Office supplies
Clocks/watches
Sunglasses
Other retail
Massage
Other services

Hobby/Special Interest

Sporting goods-general
Hobby
Art gallery
Cameras
Toys
Bike shop
Arts and Crafts
Coin shop
Outfitters
Game store
Science/nature store
Religious articles
Collectibles
Health and wellness equipment