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MEMORANDUM

To: Eureka Township Board
From: Jon Commers, Principal
Re: Market and Finance Issues for Commercial/Industrial Land Use Study
Date: October 12, 2010

The Township is evaluating the prospect of expanding and diversifying its economic and tax base through the addition of commercial/industrial uses. Currently, roughly 0.4% of the Township's land resources are designated to commercial or industrial land use. As part of the Commercial/Industrial Land Use Study currently underway, this memo summarizes research and interviews focused on clarifying commercial market opportunities and challenges for Eureka.

Key Finding

Eureka Township holds a geographic position that is likely to grow in strength and commercial market potential over time. In the immediate term (the next one to five years), relatively low land prices, available capacity in nearby industrial parks, infrastructure barriers and a soft lending market are likely to dampen commercial and industrial interest in development in the Township. In the longer term (five to fifteen years), these factors will change and may combine to award Eureka with a stronger position for location of commercial and industrial users. More detailed description of these findings and key planning considerations are below.

Sources

The inquiry used multiple secondary sources to understand market context and the planning framework for Dakota County, neighboring cities and the Township itself. These sources include:

- Eureka Township Comprehensive Plan (draft), 2009.
- Dakota County Comprehensive Plan, 2009.
- Dakota County Community Development Authority, "A Market Study for Commercial and Industrial Space in Dakota County, Minnesota," April 2008.

- City of Farmington, "Farmington 2030 Comprehensive Plan," 2008.
- City of Lakeville, "Comprehensive Land Use Plan," 2008.
- Metropolitan Council, "Airlake Airport Long-Term Comprehensive Plan," December 2008.

In addition, this inquiry engaged multiple parties familiar with commercial/industrial lending, brokerage and development, on a regional scale or with particular interest in the Eureka Township area. In addition to staff at neighboring cities, individuals interviewed include:

- Connie Boevers, Klein Bank
- Bruce Carlson, Mid-America Real Estate Minnesota, Past President of Minnesota Shopping Center Association (MSCA)
- Jim Emond, Senior, Re/Max Advantage Plus
- Jack Matasosky, APPRO Development and Lakeville Economic Development Commission

The perspectives of these professionals provided high-value, first-hand feedback to develop market input for the Township's planning process. Their collective responses, together with review of related documents and selected original analysis, inform the findings of this memo.

Development and Definitions
In settings such as the area around the Township, the steps required for development of sites vary. Most prospective sites will likely constitute unimproved land not served by water, sewer, and other physical infrastructure. The character of soils for development remains unknown and grading may be required to give the site full marketability for commercial and industrial uses. Sites with these characteristics are described as "raw land." Developers pay a premium to acquire land that is "pad ready" – meaning these issues are by and large addressed in advance.

Current Commercial/Industrial Supply
Economic slowdown has impacted the commercial/industrial market in the Minneapolis Saint Paul metropolitan area, challenging private and public investors in industrial parks. Significant supply and limited prospects to fill available warehouse, office and manufacturing spaces have dampened prevailing lease rates and values of property, both developed and undeveloped.

According to the 2009 Annual Market Report published by the Minnesota Commercial Association of Realtors (MNCAR), the commercial/industrial market of the Southeast region of the metro area posted the second highest vacancy rate for multi-tenant office warehouse, office showroom and bulk warehouse buildings in excess of 25,000 square feet. In 2009, the vacancy rate for these types of properties in the Southeast market was 18%. The Southeast market includes Farmington and Lakeville, as well as portions of Minneapolis, Saint Paul, Eagan, Apple Valley and other Dakota County communities.

Anecdotal evidence from interviews suggests that vacancy of commercial and industrial property is impacting the area surrounding the Township in particular, as well. According to industry interviews, businesses are currently signing leases at rates that make this option more economical than new construction. Until more of the stock of existing developed space is leased or purchased, restoring a more balanced leasing market, the appetite for vacant land development will remain soft.

Industrial parks in Lakeville and Farmington each offer additional capacity for industrial users, in particular. In their recent comprehensive plan updates, the cities of Farmington and Lakeville have identified a goal of adding 300 acres and 80 acres, respectively, to their supply of land designated for industrial uses in the next 15-20 years. Available commercial and industrial land in the vicinity, particularly when served by existing infrastructure (see additional discussion of the role of infrastructure below), presents a challenge to Township goals to establish commercial and industrial uses without public investment.

Infrastructure
Evaluation of market interest in prospective commercial and industrial sites involves the availability of infrastructure in the Township. The Commercial Task Force Report, completed in 2003 and excerpted in the comprehensive plan currently in community review, identified multiple development principles. One relates most to handling the infrastructure demands that more commercial and industrial uses would create for the Township:

- New commercial-industrial development must pay for the costs of its development, including public infrastructure necessary for the development.

A key issue for the Township to address is whether commercial and industrial development would be expected to generate property tax revenues in excess of public financing costs of needed infrastructure improvements, or whether developers would be required to fund improvements "up front." Township objectives on this point will bear a significant influence on the negotiation of agreements with interested developers in the future.

Several forms of infrastructure are important to the development community's consideration of the Township's available land. Representatives of the real estate marketplace identify infrastructure investments that could influence future development:

- Industrial and commercial development each demand *water and sewer service*. The Township's discussions with the Metropolitan Council about extension of these lines, and the required Township investment in such an extension, are key to informing the public role in the development process. Dodd Road and Cedar Avenue, higher-traffic routes through the Township, each carry water and sewer service south to the Township's northern boundary.

- Both commercial and industrial uses require *core public services* such as fire protection. Developers' access to financing, and lessees' access to business insurance, requires assurance that the Township has infrastructure in place to ensure rapid response to emergencies that affect industrial and commercial uses.

- Property investors and developers value flexibility of use. Many industrial and commercial users place a high premium on an ability to serve users needing *high amounts of energy or communication bandwidth*, as well as those with lower, more typical energy and communications needs.

- *Capacity to transport freight* by rail and road provides an important lever for active industrial and commercial use. The Township is accessible via I-35, Dodd Road, County Road 70 and Cedar Avenue to the regional road network, but Township roads may require additional investment to address weight restrictions governing the transport of materials to and from a commercial and industrial area. The Township's immediate access to the Canadian Pacific short line is an asset that may be unlocked through investment in spurs or other access points.

Airlake Airport is an existing element of infrastructure in the Township's vicinity. It represents an important asset for a reported 10-15% of the area market. At a rate comparable to other feeder airports in the region, Airlake's volume fell 30% (from 51,700 flights in 2005 to 35,800 flights in 2009) in the last five years.

The Township is positioned well geographically for commercial and industrial development. Fully capturing this potential is likely to involve substantial infrastructure investments in some or all of the forms outlined here.

Competition

Competition in the Township's vicinity represents an additional priority area for consideration. As outlined above, additional industrial land is available at Airlake Industrial Park located adjacent and north of the Township. Collocated air, freight rail, and industrial land use available at Airlake represents a compelling mix for prospective industrial users.

As noted above, the cities of Farmington and Lakeville contemplate the addition of roughly 380 acres of land available for industrial use, as well as goals for commercial development and redevelopment. Land capacity in these cities will push lease rates downward in prospective commercial and industrial land use in the Township. Given the larger tax base and broader set of development tools available to Lakeville, Farmington, and other cities, a disciplined development strategy for Eureka Township will be essential.

Conclusion

Evaluating a strategy for commercial and industrial land use (beyond the minimal existing level) is important for Eureka Township. Such development could help to diversify the economic and tax base of the Township, create buffers from annexation, and generate revenues to support retention of the Township's rural character.

However, the absence of key physical and other infrastructure valued by developers, investors, lenders and industrial and commercial users presents a significant challenge. The capital and long-term operating costs of infrastructure to serve a new commercial/industrial zone will represent a substantial financial commitment. Logically, the value created by enhanced infrastructure accrues to property owners, which increases the capacity for tax base. Evaluating how much development is needed to justify these investments over the long term will form essential guidance for the Township's future economic development strategy.

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MEMORANDUM

To: Eureka Township Board
From: Jon Commers, Principal
Re: Follow-up Research for Commercial/Industrial Land Use Study
Date: November 11, 2010

Following discussion at the October 18 meeting, I have continued to explore the issues that influence prospects for expanded commercial and industrial uses in the Township. What follows is a summary of findings that relate to these follow-up topics.

Changes in Neighboring Communities

In their recent comprehensive plan updates, the cities of Farmington and Lakeville have identified a goal of adding 300 acres and 80 acres, respectively, to their supply of land designated for industrial uses in the next 15-20 years.

The City of Farmington is currently aware of 184 acres, zoned industrial, available for sale, as well as 122,000 square feet of existing industrial property available for lease or sale. On the commercial side, Farmington is tracking 132 acres of land zoned for commercial uses and 90,000 square feet of existing and available commercial space. The City of Lakeville estimates the availability of more than 300 acres of readily developable industrial land in its boundaries, as well.

Capacity in these two cities poses a challenge to development goals in the Township, given the forms of infrastructure (see the attached October 12, 2010 memo for additional detail) in place in these communities. These assets, and access to economic development tools such as TIF, represent competitive disadvantages for the Township.

Jobs/Tax Base Analysis

Unfortunately, there is a lack of quality and broadly-applicable analysis examining which land uses are most productive in generating tax base and creating jobs. Despite inquiries of the International Economic Development Council (IEDC), the Minnesota Department of Employment and Economic Development (DEED), the University's Center for Urban and

Regional Affairs (CURA) and professional colleagues, I am unable to provide to you a comparative analysis of tax base generated by various land uses along these lines.

Most commercial and industrial land use is assigned a property tax "class rate" of 1.50% up to $150,000, and 2.00% for value above that threshold. Private airport hangars are assigned a class rate of 1.50% for all value, translating to a slightly lower rate than other commercial or industrial uses. As a result, the value of development as tax base is contingent primarily on how densely the property is used and the extent to which valuable equipment is installed there, rather than the specific use. The constraints of existing infrastructure, cited above and detailed in the October 12, 2010 memo, influence both the potential investment in equipment and in the density of commercial and industrial uses.

Very "broad brush" estimates are available from business information service Dun and Bradstreet, which suggest the following job densities across industries. Prospective uses that arose in discussions with stakeholders and local development professionals are storage and distribution facilities, air hangars, nurseries and landscape contractors, which fit into the broader categories of construction, distribution services and goods-related transportation:

Business Use	**Average Square Feet of Bldg Per Job**
Administrative and Waste Services	142
Business Services	231
Healthcare and Social Assistance	248
Information Technology	253
Construction	278
Educational Services	286
Financial Services	379
Government	432
Production Technology	451
Printing and Publishing	580
Metal Manufacturing	1025
Distribution Services	1188
Goods-related Transportation	1553
Medical Devices	2056

Source: Dun and Bradstreet

Again, these numbers are generic and do not reflect the particular infrastructure needs of the Township. They do, however, illustrate that higher job densities are associated with industries (such as business services and health care) that generally demand more intensive infrastructure investments.

Process
The feasibility inquiry summarized by this memo (and one dated October 12, 2010) relied on the input of multiple stakeholders and individuals familiar with the local marketplace. They are:

- Connie Boevers, Klein Bank
- Bruce Carlson, Mid-America Real Estate Minnesota, Past President of Minnesota Shopping Center Association (MSCA)
- Jim Emond, Senior, Re/Max Advantage Plus
- Tina Hansmeier, City of Farmington
- Jack Matasosky, APPRO Development and Lakeville Economic Development Commission
- David Olson, City of Lakeville
- Eric Rossbach, NAI Welsh

Please feel free to call or email with additional questions or comments about this memo or the inquiry as a whole.