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Scott County Commercial/Industrial Needs Update

Presented to: Scott County SCALE

Presented by: | Maxfield Research & Consulting LLC

May 12, 2017

Maxfield Research & Consulting, LLC

Overview

- 32 years experience
- Diverse client base
- Multi-Sector Capable
 - residential
 - commercial
 - public + private entities
- Market driven strategies
- Recommending highest & best uses
- Provide actionable plans

Maxfield Research & Consulting, LLC is a full-service real estate advisory company providing strategic value to our private and public sector clients' real estate activities.



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Project Scope

OBJECTIVE

Update previous Commercial and Industrial needs study from 2011 – Post-Recession

APPROACH

Identify current & future land area and square footage demand for communities in Scott County

PROJECT DELIVERABLES

- Short and long-term commercial and industrial land area needs
- Recommendations to guide future development

KEY DATES

- Data collection: 2nd and 3rd Quarters 2016
- Draft: November 2016
- Final: February 2017



Commercial/Industrial Study Objective

- Identify existing and future land area and square footage needs for commercial and industrial properties in communities in Scott County that will assist with guiding and attracting new business development.
- Develop a basis for community leaders, stakeholders, and decision-makers to guide future economic development initiatives in Scott County.

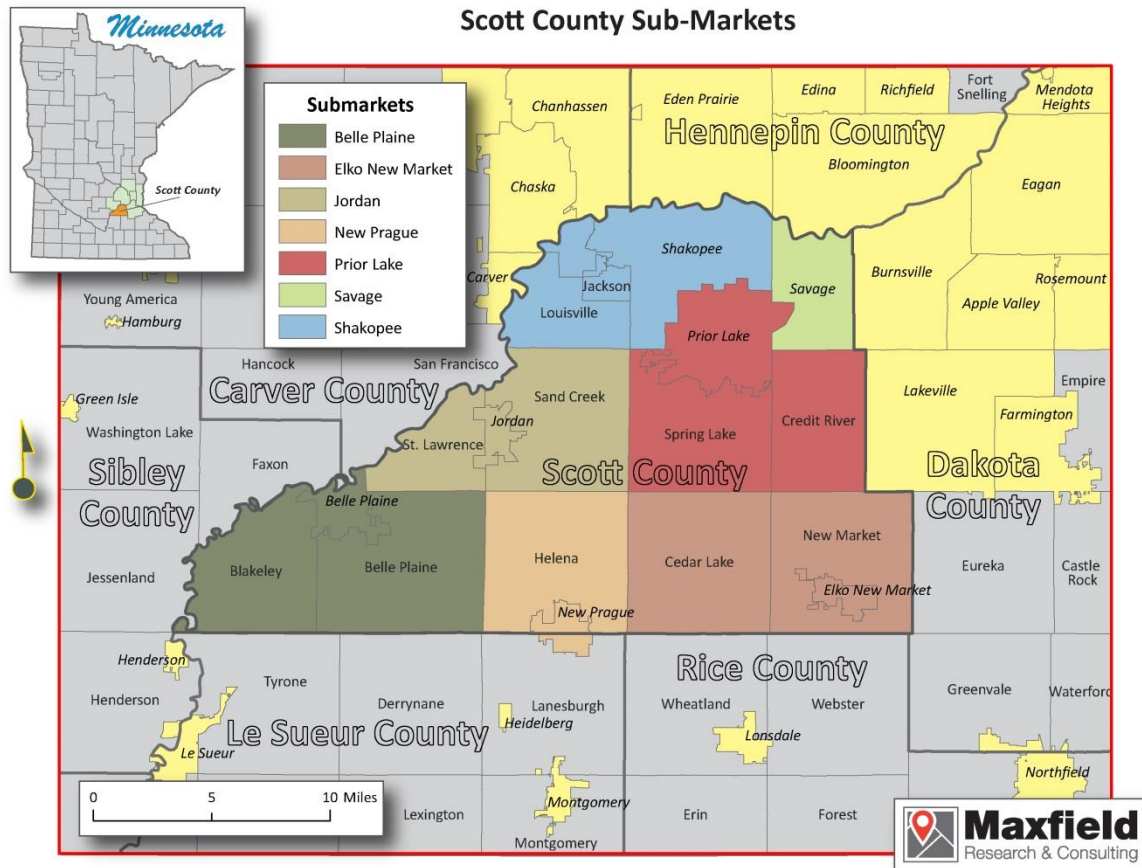


End User Benefits

- Guide policy making decisions
- Assist the Comprehensive Planning process
- Assist area banks and lending-institutions to streamline the financial component
- Solicit interest from entrepreneurs and developers to locate and build in Scott County
- Better define the relationship between economic development, housing and job growth
- Create framework to generate economic development and support SCALE activities
- Help deliver strategic priorities



Market Areas

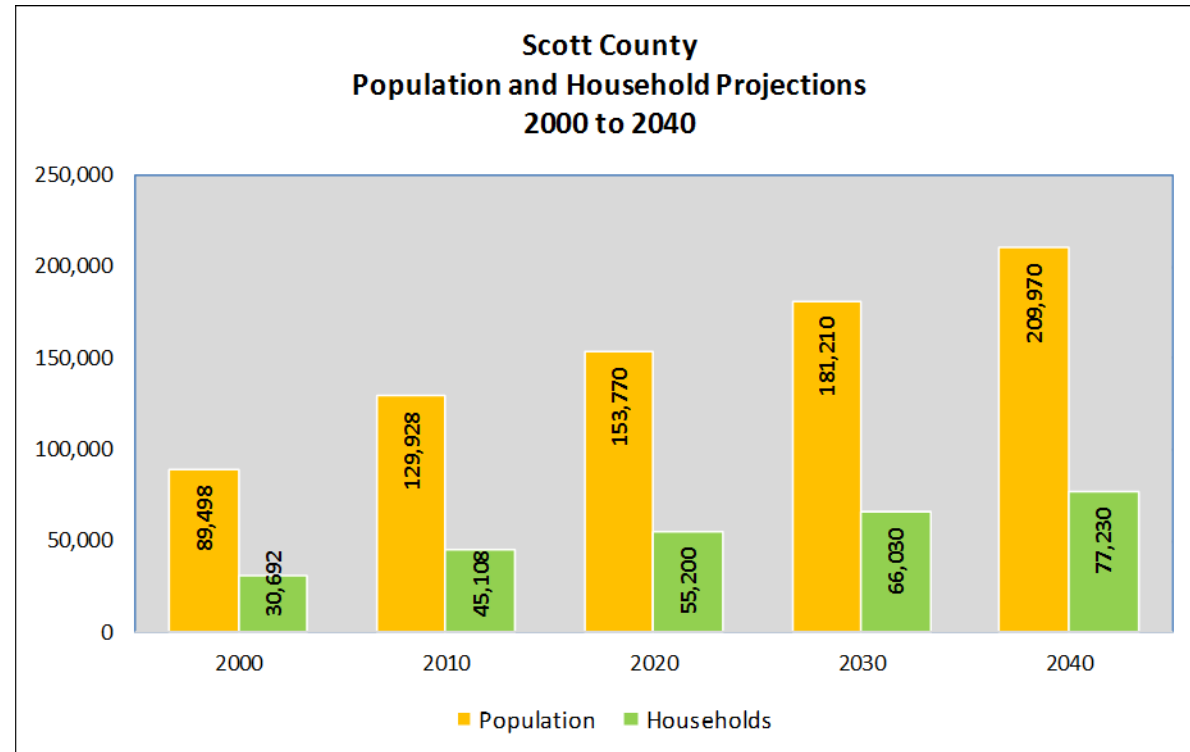


- Defined as:
- Seven submarkets
 - Demand is presented for the submarket with a focus on development in the municipalities
- Scott County's location in the Metro Area will continue to capture a portion of demand from the Metro Area, especially as land in the developed areas is less available

Projected Population and HH Growth Remains Strong

Projections

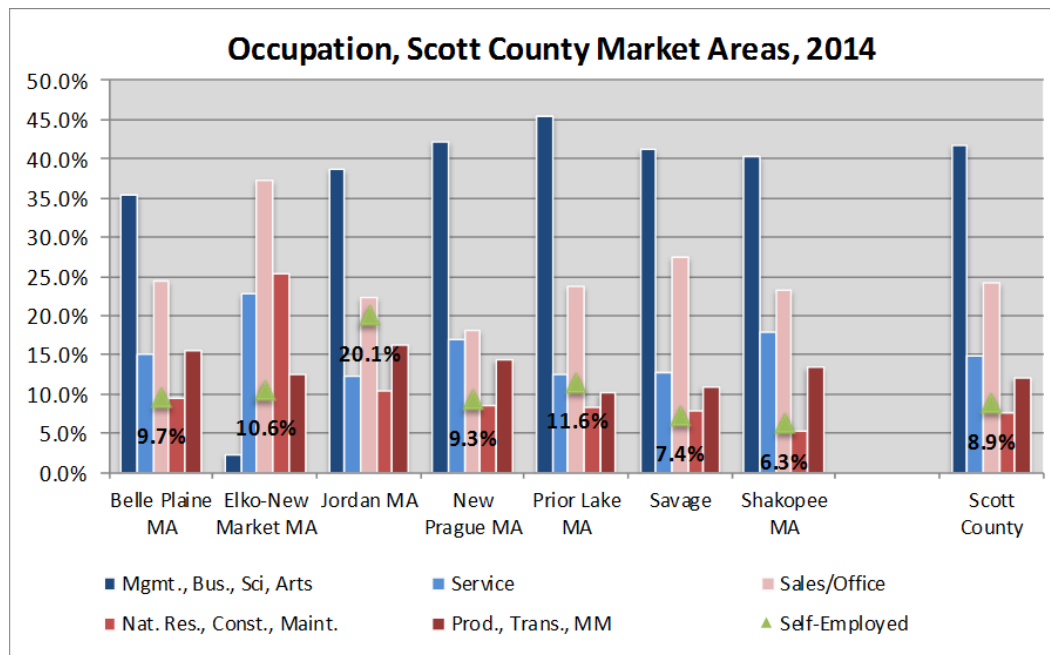
- Consistent gains in pop./hh. projected to 2040
- 2015-2020
 - Pop. +13,902 (+9.7%)
 - HHs +7,263 (+14.8%)
- 2020-2030
 - Pop. +23,499 (+14.9%)
 - HHs +9,461 (+16.8%)
- 2030-2040
 - Pop. +23,750 (+13.1%)
 - HHs +9,710 (+14.7%)



Occupations

- Most residents in Scott County have an occupation in the Management, Business, Science or Arts category, between 35% and 45%.
 - Exception is Elko-New Market submarket which has the highest proportion of residents with occupations in Sales/Office category.
 - Overall, 42% of residents in Scott Co. have occupations in Mgmt./Business category

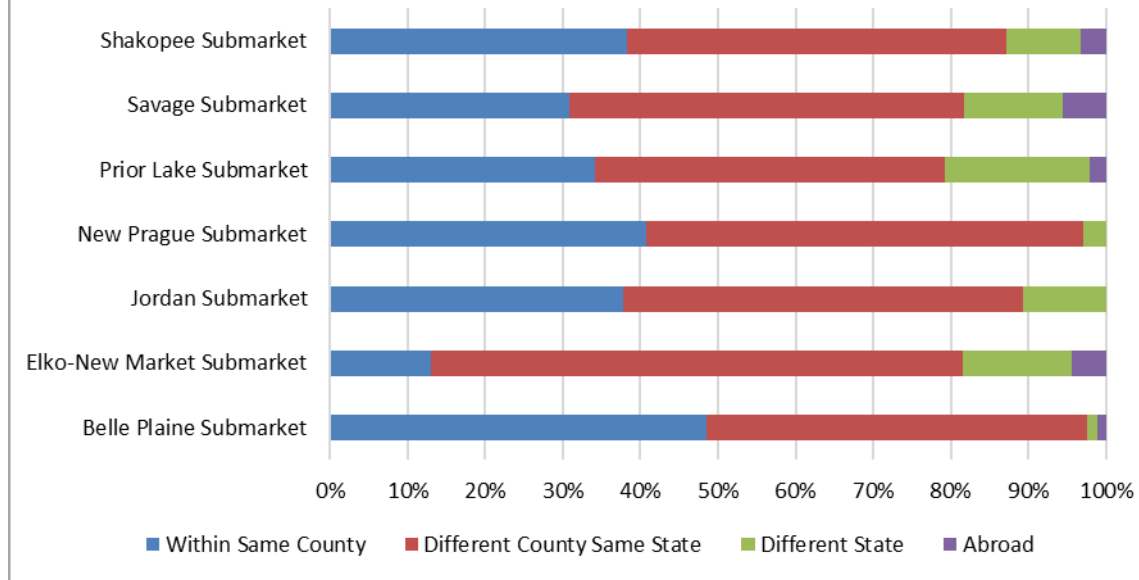
- Proportion of Self-Employed Residents:
 - Ranged from a low of 6.3% in the Shakopee submarket to a high of 20.1% in the Jordan submarket
 - In Scott County overall, 8.9% of residents were self-employed as of 2014



Mobility

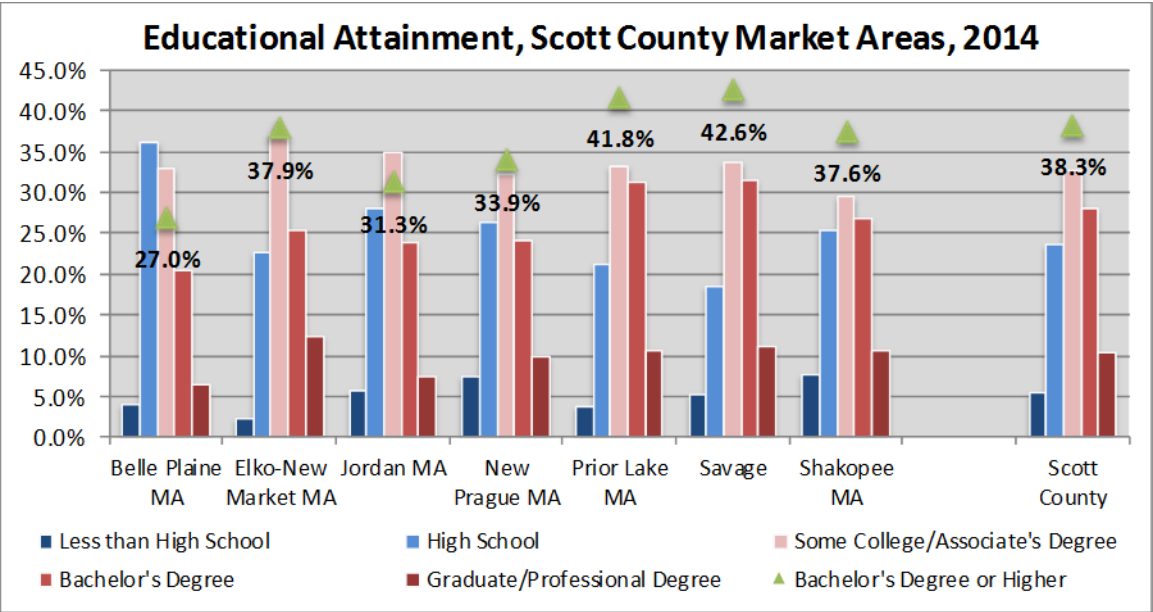
- Within a one year timeframe, 10% of residents in Scott County relocated
 - Of those that moved, most moved from a different county within the same state
 - The youngest age cohort, under age 25 were the most likely to report a move, nearly 21% of this age group within the past year
 - Those least likely to move were the 45 to 54 age group at 5.3% after which mobility rises again reaching 8% among age 75 years or older
 - Of those age 75 years or older, 23% reported a move to a different state

Location of Move by Submarket, Scott County, 2014



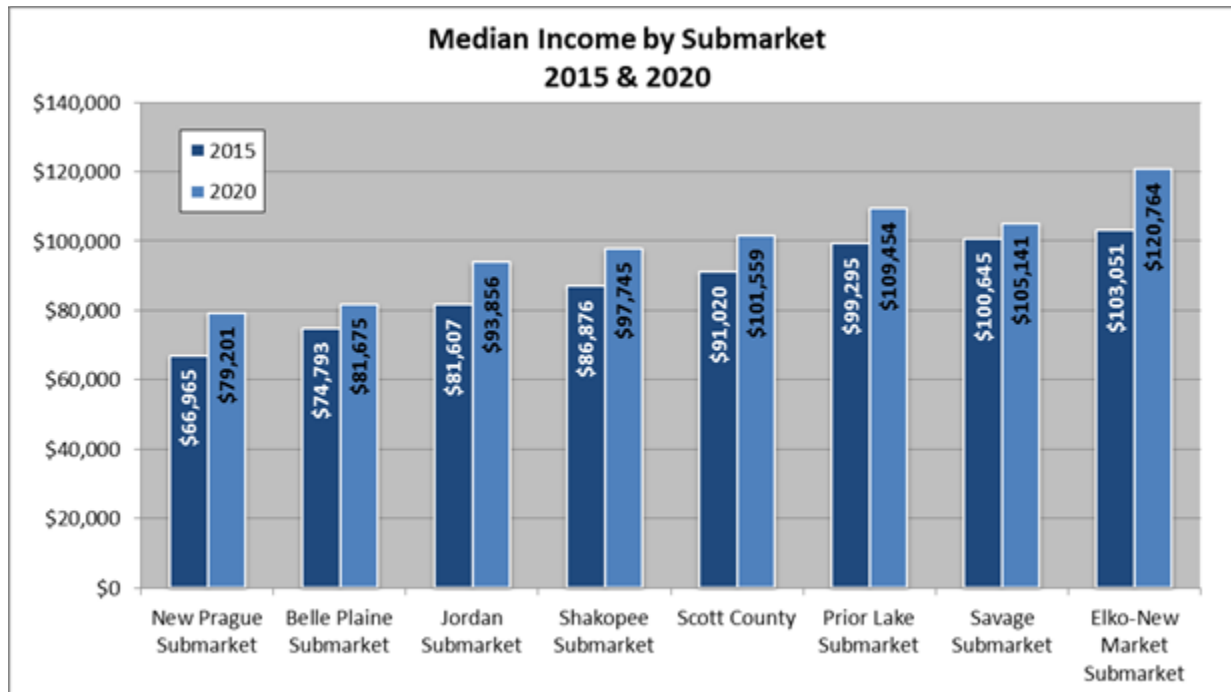
Educational Attainment

- Educational attainment of some college or a Bachelor's Degree represented the highest proportion of the population in each of the submarkets
- Exception was Belle Plaine, where most residents reported having a high school diploma
- Highest levels were in Savage and Prior Lake where 42.6% and 41.8%, respectively had some college or a Bachelor's Degree



Above Average Household Incomes

- Median Income (2015):
 - \$91,020 – Scott County
 - \$67,795 – Twin Cities Metro
- Highest earners (2015)
 - \$107,854 – Scott County 35-44 age cohort
 - \$88,167 – Twin Cities 45-54 age cohort
- Projected increase by 2020:
 - +11.6% to \$101,559 (Scott Co.)
 - +16.1% to \$78,703 (Twin Cities Metro)
- 2015 Income disparity by tenure (Scott Co)
 - \$95,959 (owner) vs. \$43,338 (renter)

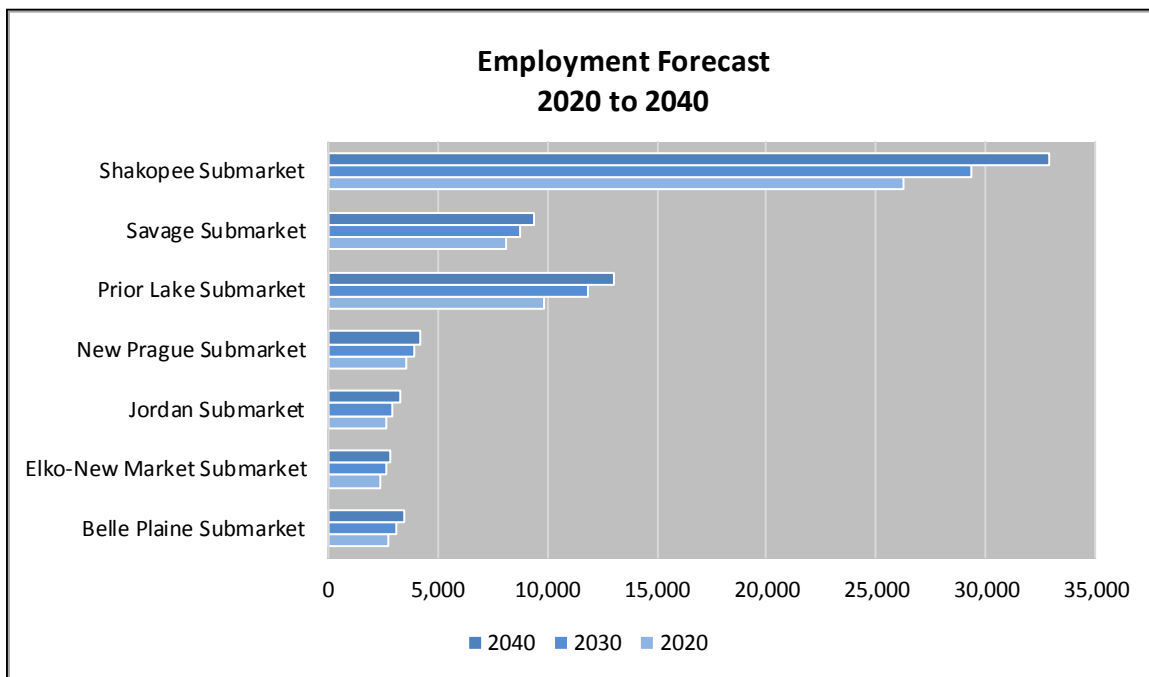


Employment and Commuting Patterns

Employment

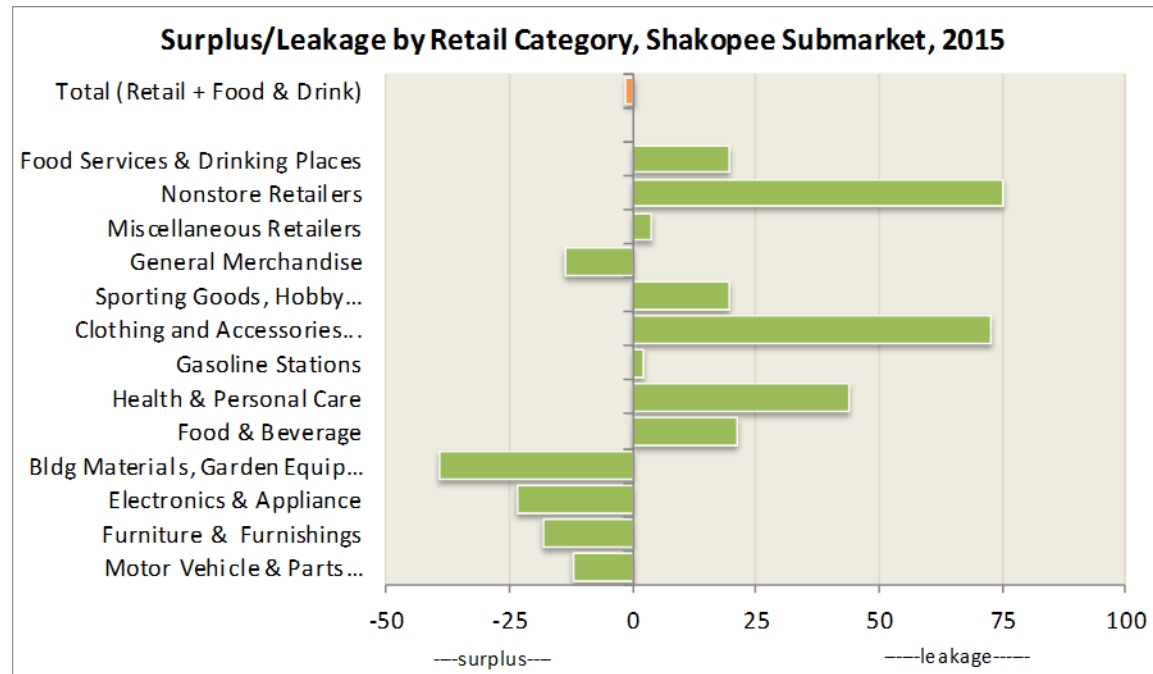
- Scott County unemployment rate: 3.2% vs Metro Area 3.3%
- Job growth more rapid than labor force growth causing decrease in Unemployment Rate

- Scott County is an exporter of workers
 - 51,983 workers leave the Co. while 20,821 workers come into the Co. (-31,162 daily outflow)
- Avg. weekly wages (2015)
 - \$909 in Scott Co. vs. \$1,159 in Twin Cities Metro
 - Highest avg. weekly wage in Scott Co. in the Mfg. sector: \$1,376



Consumer Expenditures (Retail Goods and Services)

- Shakopee reported one of the lowest retail leakage factors because of its concentration of retail outlets in the city serving greater Scott County
- Savage is similar to Shakopee with a growing concentration of larger retail outlets
- Elko New Market reported one of the highest leakage factors in the County
- Submarkets with solid concentrations of neighborhood goods and services include most of the remaining submarkets such as Belle Plaine, Jordan, New Prague, and Prior Lake.



Major Employer Interviews

- There is a strong base of long-standing major employers in Scott County that have been established in the area for 20 years or more;
- In addition, Scott County has recently attracted several notable new employers that have hired or are in the process of hiring a substantial number of workers such as Shutterfly and Amazon; availability of land located near major transportation routes, growth post-recession and a desire for expanded distribution channels have fueled this development
- Employers mentioned that higher level management is more likely to commute from a greater distance while lower level employees prefer to be located nearer their work location
- If the employee is hired for a new position and currently lives outside of the area, they are more likely to remain in their current location rather than relocate, at least in the short-term
- Employers have a deeper labor pool being located near to the core Metro Area, but they also have to compete for workers which can increase time and money spent on recruitment.
- Survey respondents reported the highest proportion of workers in production and operations positions followed by professional and technical positions



Employer Training Interviews

- One-third of employer training respondents stated that most training is done in-house or through union officials
- Several employers were interested in the potential of having a student body that would expand their ability to hire from this group rather than having training opportunities at an educational institution
- Some employers expressed interest in additional training offerings in the fields of health care, production and business management
- Survey respondents were most interested in business leadership and management training for their existing employees
- Healthcare service training specifically for workers in senior living facilities was cited as a definite need; there are currently labor shortages of qualified workers to take positions that are available at these facilities
- Health care employers preferred instructor-led training for credit while other respondents said that leadership training could be instructor-led or online
- There was some consensus that in-house training capabilities were somewhat limited and could be supplemented through other types of training offerings



Scott County-Business Development Activity Trends

- Industrial leasing activity was strong over the past few years, leading to several speculative developments in 2016
- The strong industrial real estate market was fueled by “ready to go” land in close proximity to Highway 169 and City/County staff assisting tenants and developers
- Minimal tech/flex space was added because the spaces are expensive to operate and difficult to re-tenant
- Office leasing and sales activity has been characterized as slow (true generally throughout the Metro Area, except perhaps in the Downtown CBDs)
- Build-to-suit projects rather than retro-fit have been favored most recently as clients are able to tailor the space to best suit their needs; long-term leases (10 years or more) are signed for this type of space
- One disadvantage cited for Scott County is the more rural feel of the County and its perceived lack of retail/restaurant availability south of Savage/Shakopee

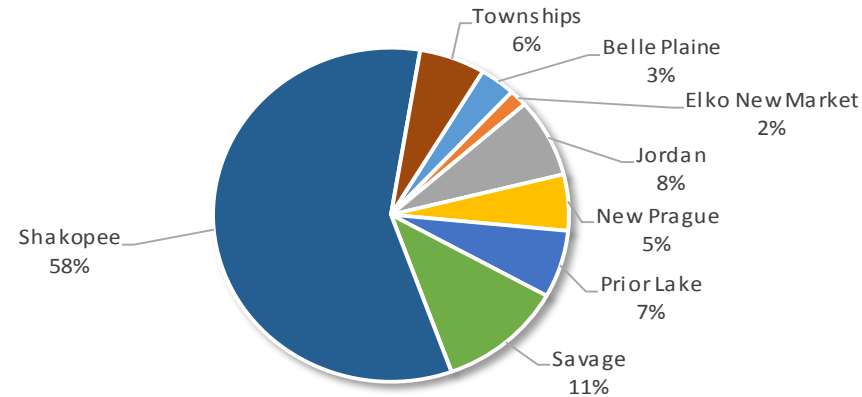


Commercial and Industrial Building Permits

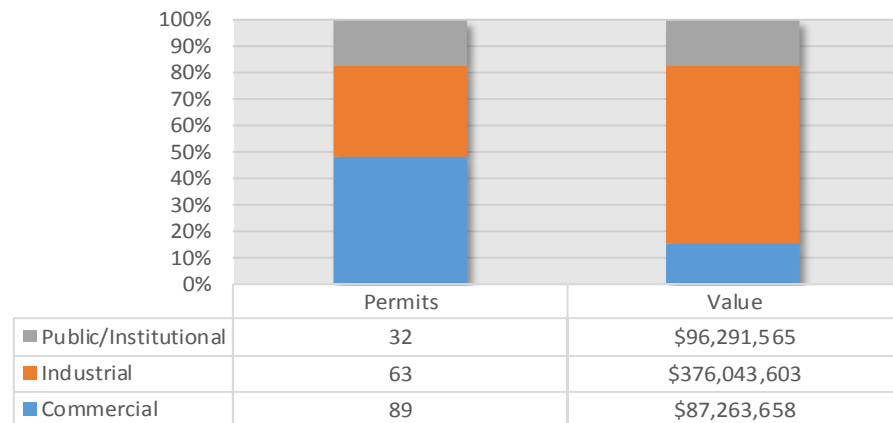
2010-2015

- Shakopee accounted for 58% of C/I permits issued over the period
- Savage accounted for 11%, Jordan – 8% and Prior Lake-7%
- Total Value - \$560 million
- Shakopee accounted for 77% of the total value of C/I permits issued with \$432 million; Savage accounted for \$44.5 million and Jordan accounted for \$43.4 million

Scott County Commercial/Industrial Permits
2010-2015



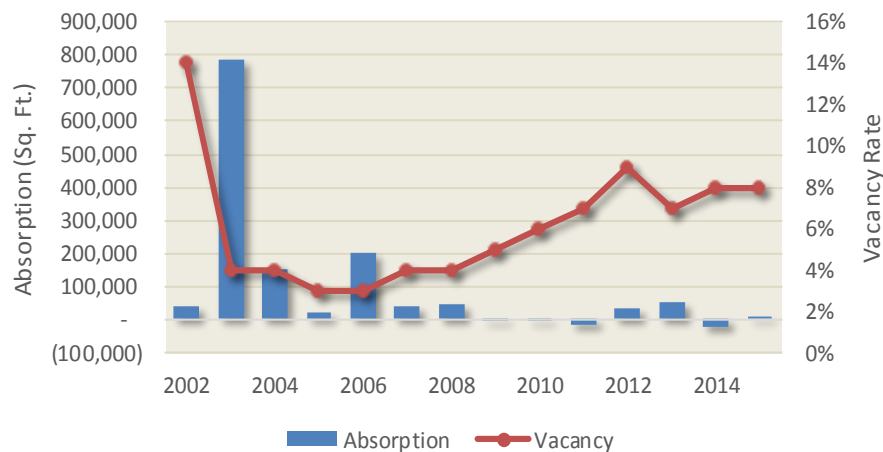
Commercial/Industrial Permits by Type
2010 - 2015



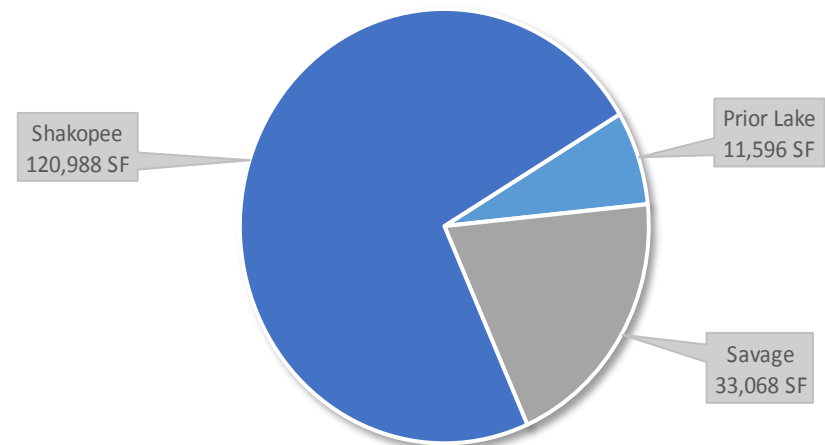
Scott County Retail Supply and Demand

- Retail absorption in Scott County was strongest during the period 2003 through 2006 after which absorption dropped off and vacancies began to climb
- Vacancies reached a high of nearly 10% in 2012, just after the recession; since then vacancies have dropped to 8% with modest absorption; however, a high of 10% still remains moderate in this sector as other submarkets had vacancies much higher during the recession
- Retail continues to be in flux as brick and mortar outlets are seeking a balance between online sales and traditional retail sales; convenience and food/beverage outlets are less affected by this trend

Retail Supply & Demand
Scott County



Distribution of Available Retail Space
Scott County

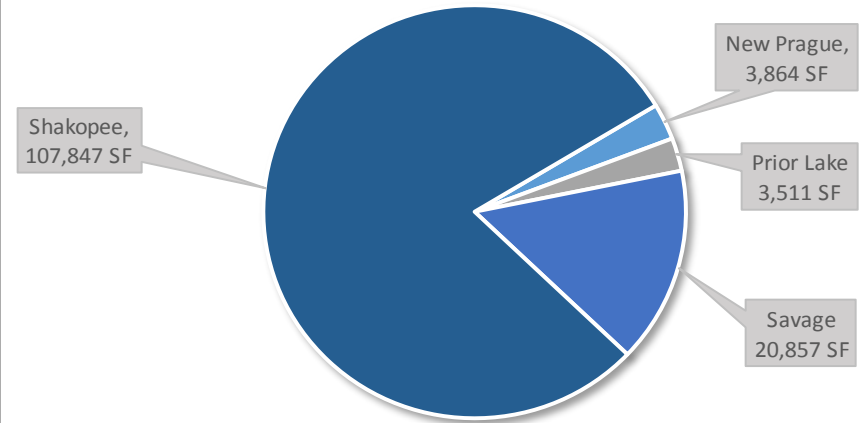


Scott County Office Space

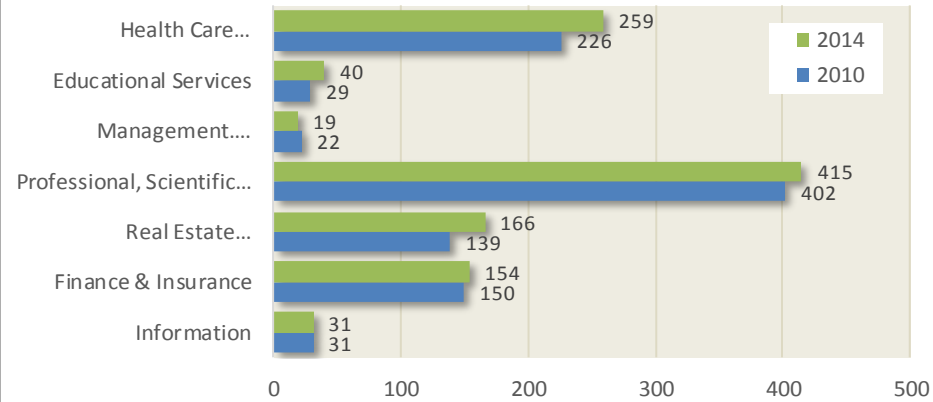
Overall

- Increase in office space primarily in the professional and technical sectors and health care
- Most office space available is Class B, generally newer space, but with moderate lease rates
- Average size of office spaces available was 8,400 square feet with suite sizes ranging from a low of 151 SF to 98,000 SF (Qlogic)
- Average net rent was \$12.44 psf with a range of \$8.00 psf to a high of \$22 psf
- Most of the office spaces available were listed as “general purpose” versus medical office
- Greatest amount of office space utilized is in Shakopee, Savage and Prior Lake

Distribution of Available Office Space
Scott County



Office-Using Businesses by Sector
Scott County: 2010 - 2014



Scott County - Industrial Vacancy and Space Inventory

Bulk Warehouse accounted for the highest proportion of the multi-tenant industrial supply in Scott County

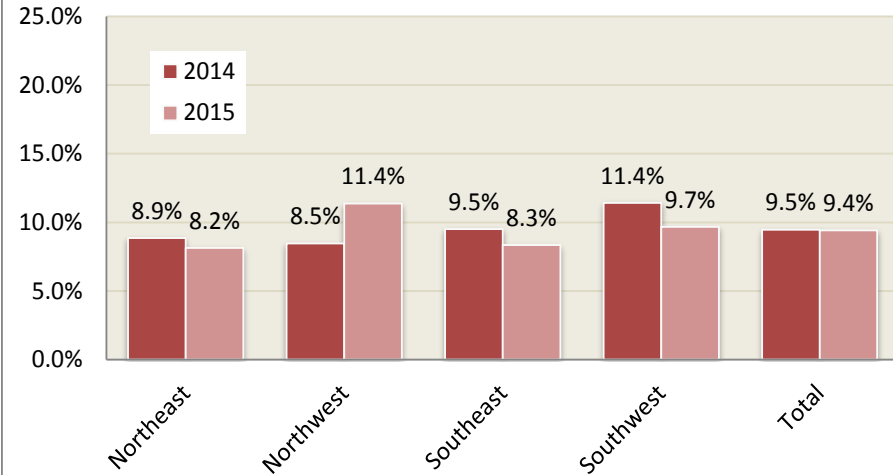
This compares to only about 23% in the southwest submarket overall

The Southwest submarket has a much higher proportion of office/warehouse spaces, roughly 35% compared to roughly 23% in Scott County

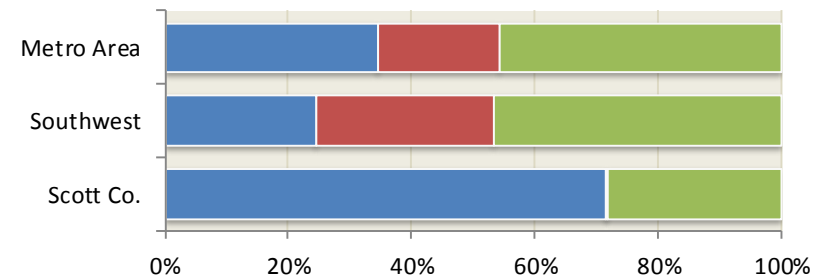
Industrial vacancy rates were the lowest in the NE and SE submarkets

Most of the available industrial space was located in Shakopee (773,000 sf), followed by Savage (138,000 sf) and Jordan (32,000 sf)

Industrial Vacancy Comparison by Submarket



Multi-Tenant Industrial Inventory by Product Type



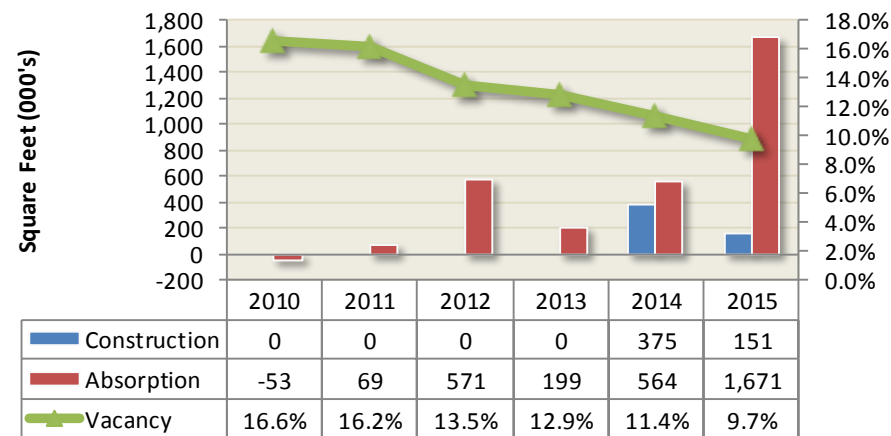
	Scott Co.	Southwest	Metro Area
Bulk Warehouse	3,783,963	6,256,682	36,343,088
Office Showroom	24,400	7,382,183	20,381,748
Office Warehouse	1,484,829	11,878,217	47,975,094



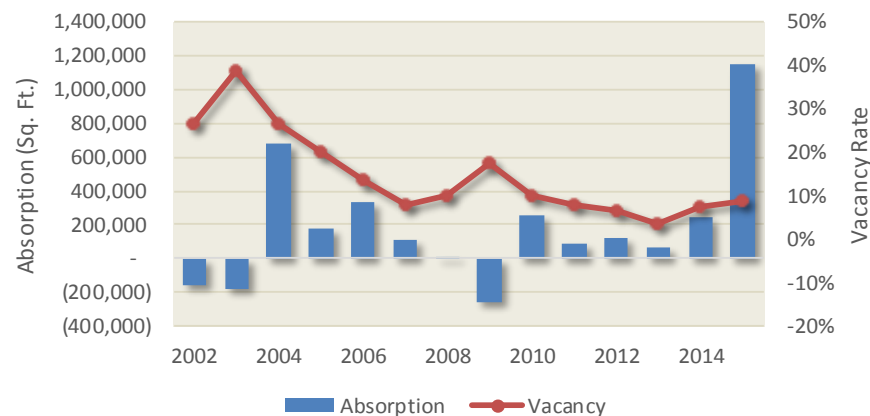
Scott County-Multi-Tenant Industrial Trends

- Southwest submarket of the Twin Cities experienced strong absorption of industrial space in 2014 and 2015
- Economic growth and pent-up demand led to expansions and new development
- In Scott County, multi-tenant industrial space vacancy rates gradually decreased beginning in 2003 except for a small rise in 2009
- Absorption was strongest in 2004 and again in 2015
- Although absorption weakened during the Recession, Scott County still averaged absorption of 132,000 sf during the period from 2010 through 2013

**Southwest Submarket Multi-Tenant Industrial Market
Supply & Demand Trends**



**Multi-Tenant Industrial Supply & Demand
Scott County**

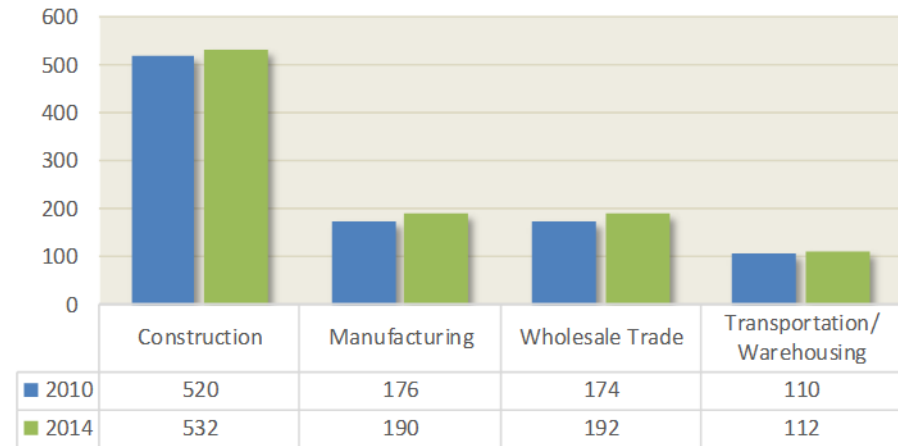


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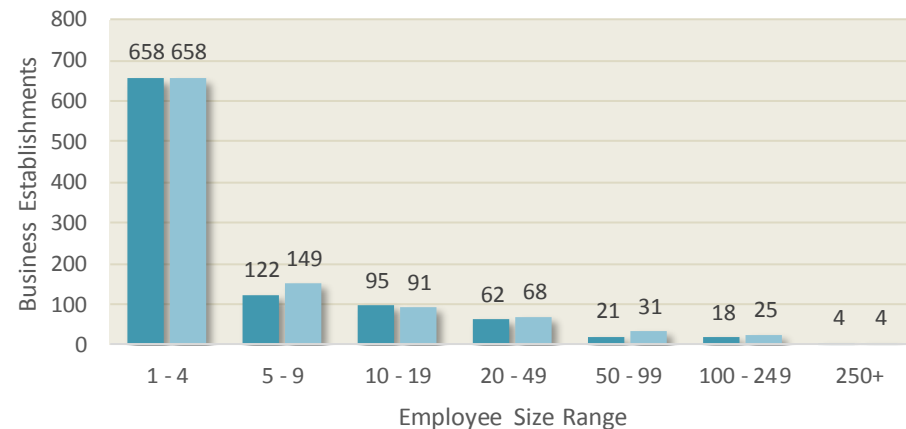
Scott County - Industrial-Using Establishments by Sector

- Most of the companies using industrial space are in the Construction sector followed almost equally by Wholesale Trade and Manufacturing
- Transportation/Warehousing had the smallest number of companies, but occupy a larger amount of SF
- Each sector showed an increase in the number of establishments between 2010 and 2014
- The highest number of businesses using industrial space have between one and four employees (consistent with the construction sector)

Industrial-Using Establishments by Sector
Scott County: 2010 to 2014



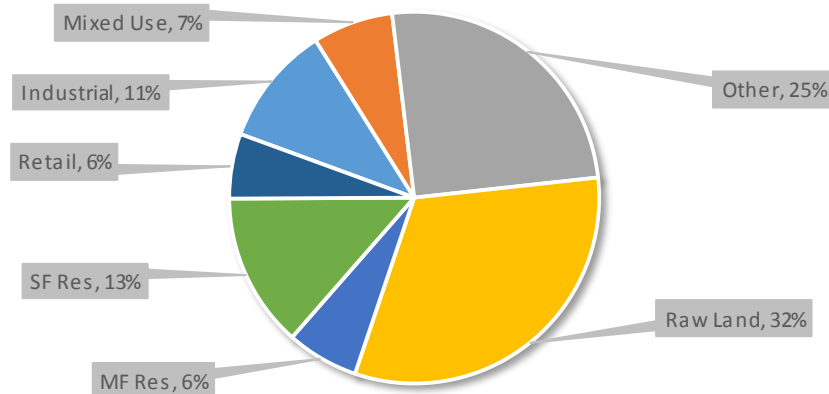
Industrial-Using Establishments in Scott County
by Business Size: 2010 & 2014



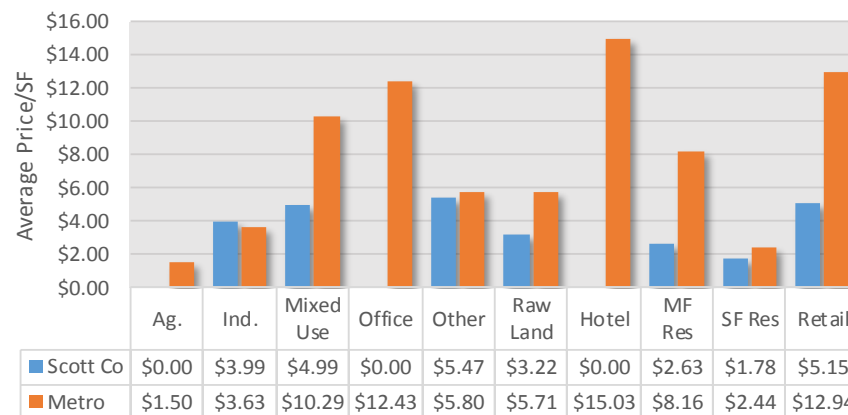
Scott County – Land Availability by Use

- Raw Land accounted for 32% of actively marketing parcels in Scott County as of 2016; another 25% was listed as “other”
- Approximately 13% of the land was listed as for industrial use while 7% was listed for mixed-use and 6% as retail
- Land pricing comparison shows that Scott County land prices are generally much lower than the Twin Cities Metro Area, except for Industrial and Other categories.
- Scott County’s average land price psf for industrial was slightly higher than the Metro and was generally on a par with the Metro in the Other category
- Land absorption was highest in 2011 and was also strong from 2012 to 2014 as buyers likely purchased at lower prices

Scott County Land Actively Marketing by Land Use



Land Pricing Comparison
Scott County vs. Metro Area



Scott County Commercial/Industrial Demand to 2040

The demand analysis identified Demand for more than 10 million square feet of commercial and industrial space in Scott County from 2015 to 2040

The breakout is as follows:

2015-2020

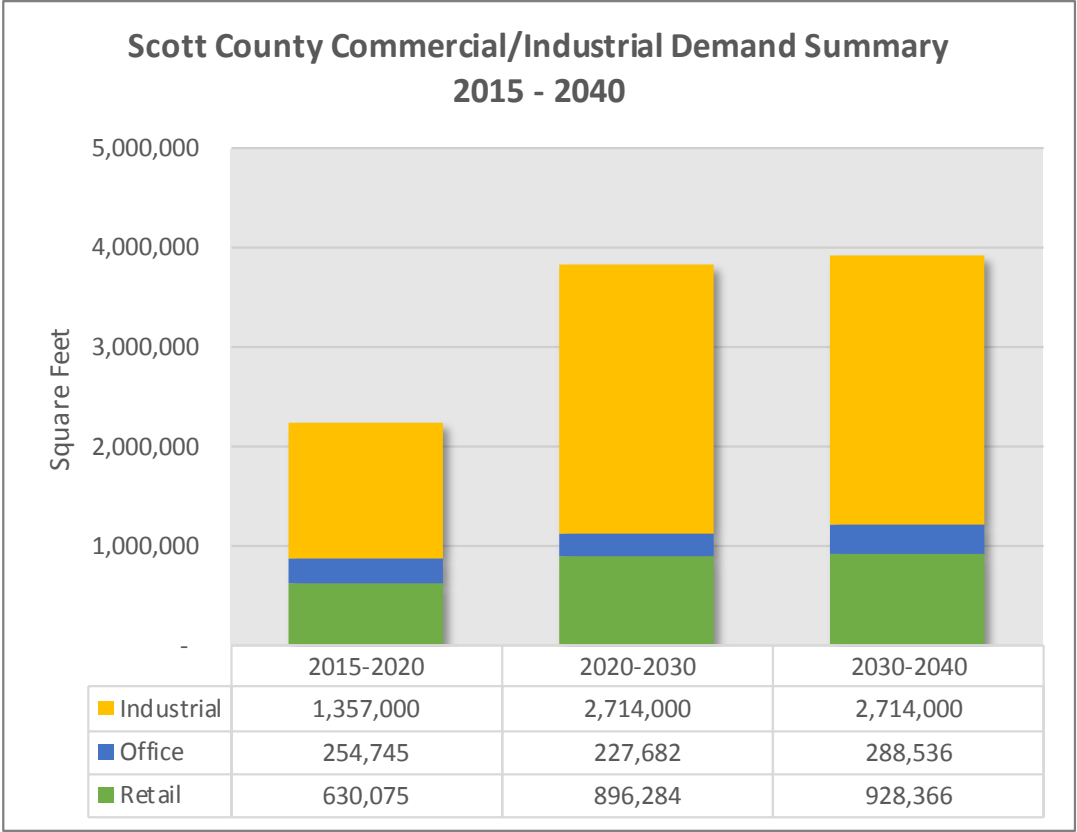
- 60% industrial
- 11% office
- 29% retail

2020-2030

- 71% industrial
- 6% office
- 23% retail

2030-2040

- 69% industrial
- 7% office
- 24% retail



Scott County – C/I Land Area Requirements

Commercial and industrial development could consume as much as 964 acres of land in Scott County between 2015 and 2040

Absorption of land was allocated accordingly:

Shakopee (400 acres)

Prior Lake (140 acres)

Belle Plaine (97 acres)

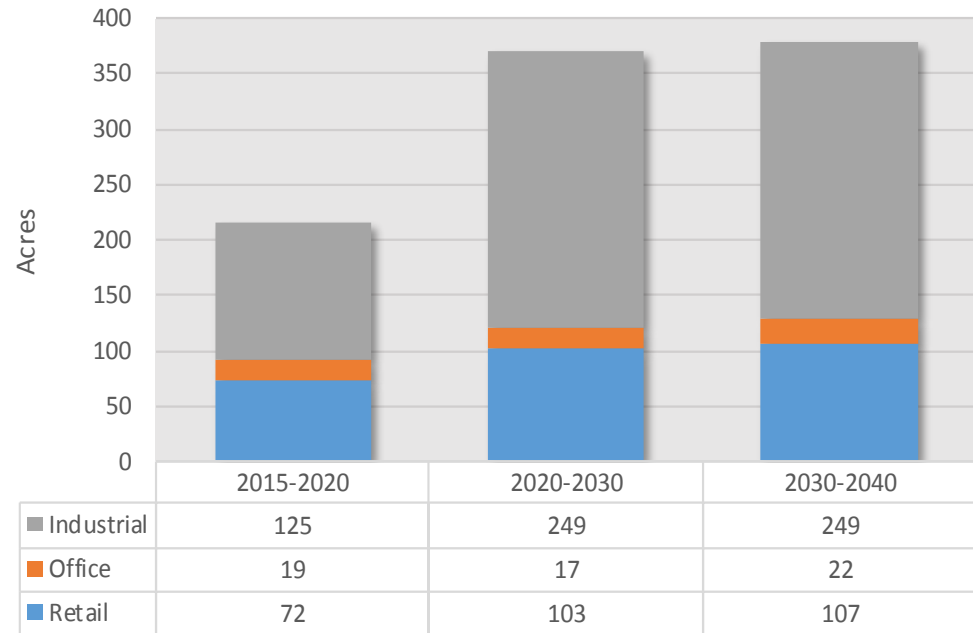
Elko New Market (97 acres)

Savage (91 acres)

New Prague (75 acres)

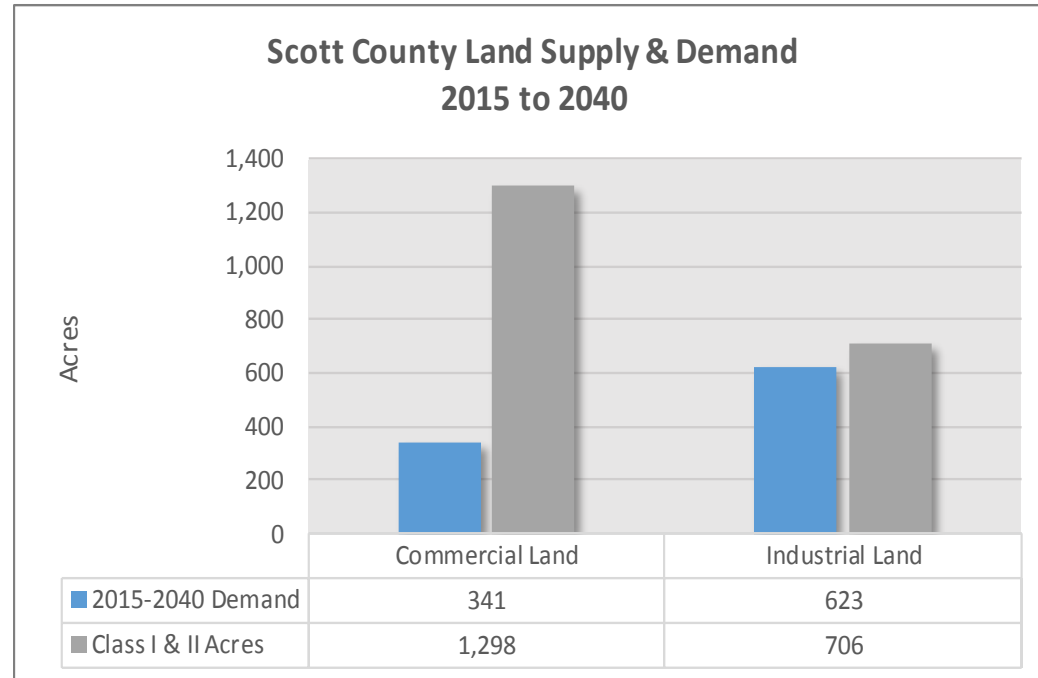
Jordan (61 acres)

Scott County Commercial/Industrial Demand
Land Area Requirements 2015 to 2040



Scott County Land Supply

- The analysis shows that there would be a sufficient supply of Class I and Class II acres of land to support the projected commercial demand from 2015 to 2040
- The potential supply of industrial land, identified at 706 Class I and Class II acres may be insufficient to accommodate the potential demand shown at 623 acres from 2015 to 2040 depending on the location of sites and the needs of the users for specific features and amenities associated with some locations



Scott County - Labor Force to Jobs Ratio

- Year-end 2016, Scott County's labor force totaled 78,384 people
- As of 2nd Quarter 2016, jobs in Scott County totaled 47,953, for a labor force to jobs ratio of 61%, exceeding the County's 50% goal
- By 2025, Scott County's labor force is projected to total 95,843 people; in order to maintain a 50% goal of jobs to labor force, Scott County would need to have 47,922 jobs. Current jobs have already exceeded this level, so we would anticipate that unless the County loses jobs, it would be able to maintain higher than a 50% ratio to 2025.
- By 2030, Scott County's labor force is projected to total 106,175 people; at a 50% ratio, this would equal 53,088 jobs; Scott County is projected to have 61,990 jobs by 2030. If the County meets its targeted 2030 job total, this would be a labor force to jobs ratio of 58%.



Key Takeaways...

- Population and household growth are projected to remain strong in Scott County; housing production in the County will need to support economic development to ensure there are sufficient housing products to support worker demand from companies locating to Scott County; developing affordable housing across the County may assist companies in attracting workers to production and service jobs
- The County has already met its 50% goal of labor force to jobs ratio and is anticipated to be able to maintain that level to at least 2030
- Scott County has recently captured sizeable employers, those that were looking for sites to locate manufacturing and bulk warehouse facilities. These have been difficult to locate in other areas of the Metro
- Office space demand continues to remain lackluster throughout the Metro Area, except perhaps in Downtown Minneapolis and Downtown St. Paul
- Retail demand is anticipated to increase to provide goods and services as household growth continues in Scott County; convenience and food/beverage outlets will be the focus over soft goods retail which is transitioning between traditional outlets and online formats
- Industrially-zoned Class I and II acres may be insufficient to meet the projected demand for industrial space over the long-term as the strongest sites are likely to be taken first
- Workforce development strategies may help existing companies better compete for workers in the short- and long-term



Questions & Comments

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