

Associate Retail Complex Survey

# Montrose, Minnesota

**Project #MNTRS102**

**Prepared for:**

**The City of Montrose**

**September 7, 2012**

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# EXECUTIVE SUMMARY

## Purpose

The recommendations, suggestions and performance forecasts with this report relate directly to the proposed Montrose grocery store per Scenario 2 of KWA's Retail Food Market Survey #MNTRS101, dated August 10, 2012.

The primary purpose of this Retail Market Study is to identify an associate retail complex for the proposed grocery store; a mix of complimentary convenience retail services which additionally suit the needs of Montrose market consumers. The process for identifying that retail model:

1. **Review the identifiable retail expenditures by category** for consumers within the subject Montrose market. "Identifiable" meaning Census of Retail Trade defined in terms of category and annual, aggregate expenditures.
2. **Analyze the primary competition influencing the subject trade area.**
3. **Make first-pass, first year end performance forecasts by category**, in terms of store size, sales volume, \$/square foot productivity and market share (see the Retail Category Field Model on page 9).
4. Select from the Field Model a **Recommended Retail Complex** (see page 8) for association with and in support of the proposed Montrose grocery store.
5. **Identify example rents for each retail element of the Recommended Retail Complex**, for consideration of revenue returns with the development investment (*triple net* including CAM and taxes).

The Recommended Retail Model complex is intended to help Montrose City planners and prospective developers understand the potential for broadened development and a greater business dynamic for short- and long-term planning purposes, especially with regard to grocery store feasibility. The information is also intended for prospective developers and property owners to use or alter to their interests and in turn to draft a pro forma for assessing the investment feasibility.

## Potential Sites for the Proposed Supermarket and Associate Shopping Complex

Montrose City planners have identified several commercial sites throughout the community, for the primary objective of developing a grocery store. The previous report MNTRS101 addresses two general scenarios for that objective:

- **Scenario 1 – lowest cost entry with developing a freestanding, 9,000 square foot grocery store at Montrose Convenience Store Site 100.**
- **Scenario 2 -- broadened objective of developing a larger grocery store of 14,000 square feet as anchor tenant of an associate retail complex.**

**The retail complex with Scenario 2 is related to East Site 200 (Montrose Available Commercial Site 7) because it is judged to currently present the best site traits for the objective of a greater development (35.67 acres); i.e., mixed-use plan with residential, which might help justify development feasibility in terms of site availability, site layout and costs. However, Scenario 2 can also be considered at these alternate sites:**

- **Shingobee West Site 200 (Montrose Available Commercial Site 1), 29.31 acres.**
- **East Site 400 (Montrose Available Commercial Site 8) 3.56 acres for development limited to a strip shopping center.**

Montrose Available Commercial Sites 2 & 3 are judged too small for the objective and with less supportive site traits.

Montrose Commercial Sites 4 & 5 are considered off route of recommended positioning along US Highway 12/Nelson Avenue.

Montrose Commercial Site 6 is considered too setback from Highway 12 for retail presentation and impressions, compared to this survey's map key Site 100-400.



## Recommended retail elements:

### Grocery store

This is the anchor retailer for the proposed retail complex and thereby warranting premium position in the shopping complex (i.e., presentation, roadside sight lines and site ingress/egress).

**A key factor of an anchor tenant is business exposure generated for the benefit of the other associate tenants...**in this case the performance forecast for a 14,000 sf grocery store generates about 4,000 transactions weekly (assuming an \$18-\$20 average transaction); using a multiplier of 1.5 persons per transaction then **the grocery store's traffic presents exposure to 6,000 customers, weekly, on site.**

The 14,000 sf facility is the recommended full format grocery size as explained in the grocery store report. That size does produce lean, initial sales and \$/sf productivity in the startup situation, so it will take the full three years to business maturation (see that report's three year sales forecast). That means **the grocery store will benefit with upfront rent relief in order to divert that expense to initial marketing and business development process.**

**Another approach to this objective is a leaner grocery retail model,** downsized to 12,000 sf for the point of improved \$/sf productivity. This sacrifices certain aspects of grocery retailing (e.g., specialty departments and value merchandising) where the end forecast is dependent on plan details.

### Pharmacy

A freestanding pharmacy retailer will be challenging so that the **recommendation here is to pursue a sub-lease tenant for the grocery store,** thereby reducing that store's size to nearer 1,000 sf. It is also recommended to **incorporate a drive-thru** in order to optimize service and potential.

**Fuel Center**

Current Montrose fuel centers are modest formats, comparatively, so that a fuel center in this proposed complex can dominate this market. **The forecast is for unbranded fuel, i.e., a conservative forecast.**

**The recommendation here is to associate the fuel center with the grocery store** to help broaden each store's potential and physical profile, and to consider the option of a grocery shopping, fuel reward program. This might be economically accomplished with combined grocery/fuel center facilities, but roadside position is important for traffic capture, which is all dependent on the end site and site layout. Branded fuel has upside performance potential.

**Liquor Store**

Logical co-tenant for complimentary mix of convenience retail services and a contending, new retail complex. Montrose has a new liquor store in proximity of the east sites, so this report's liquor store sales forecast relates to two scenarios:

1. **A strengthened business setting for the existing liquor store**, but that depends on the liquor retail model and the store's situation in association with the proposed retail complex.
2. **A new liquor store for the community, especially if the proposed retail complex is developed at West Site 200** for greater convenience to the Waverly side of the market, including the lakes area.

**Restaurants**

Feasibility with three types of restaurants but some of the options might rely on combination formatting:

1. **Fast food** - there would appear to be borderline potential for a freestanding store with a leading banner so the combination formatting options are:
  - a. **With the grocery store** and citing Subway or Cousins Subs as examples, but noting that they are limited menu options and therefore about 50% of the fast food category potential.
  - b. **With the fuel center;** examples including Subway, Cousins Subs, McDonalds, Taco Bell, etc.

2. **Full Service Restaurant** - the Montrose market potential wouldn't appear to fit criteria (e.g., traffic volume and daytime sector) for a chain like Applebee's or Denny's, but might support an independent banner:
  - a. **Existing community restaurant repositioned:**
    - i. **Red's Café, Montrose.**
    - ii. **Great Northern Bar & Grill.**
    - iii. **Redlodge Grill, Waverly.**

The issue with this strategy is that some or all of these operations might own their real estate which makes relocation more challenging to justify.
  - b. **Option: a new market entry** which will contend against the established businesses, yet it is a logical element for the proposed mix of businesses and services for a contending retail district.
3. **Dollar store** - feasibility for a general merchandise store in the Montrose market is limited to a dollar store and more so to a "B" tier dollar store other than that of the larger Family Dollar and Dollar General formats which require 6k sf or greater. This survey's smaller format relates to the "B" tier like Dollar Tree and independent programs.
4. **Daycare** - lease rate feasibility will be the issue especially when considering this business's need for a play yard in addition to the indoor facilities, but this is a desired service for the community as stated in the Montrose Business Opportunities report and therefore a favorable compliment to the proposed retail complex.
5. **Bank** - a bank performance forecast isn't a part of this report's retail complex forecasting because it isn't a defined retail category, but it is an obvious complimentary co-tenant for an out lot position of this proposed development.



## CONCLUSION

The Montrose retail market including residents in Waverly and the adjacent lakes area to that community is estimated with just over 11,000 consumers which is significant with regard to retail potential. For example, Walmart's baseline feasibility is a market of 20,000 residents; this case presents a little more than one-half that potential which obviously isn't supportive for Walmart but does raise good potential for a convenience oriented retail model for the objective.

Currently, community residents drive for full-service grocery 7 miles West to Howard Lake (against the grain of metro gravitation), 7 miles East to Delano, 8 miles South to Watertown, or 8 miles North to Buffalo, which has the strongest competitive retail district aside from Twin Cities' gravitation and commercial influence.

There appears to be adequate sales potential for a conventional format grocery store in Montrose, however, feasibility is dependent on the retail plan and a supportive business setting in terms of adjacent and complimentary commercial.

It is the conclusion of this overall market research project that this development can be tailored for application at either the east or west commercial locations as identified with this report and with the Montrose Available Commercial Sites.

As mentioned, East Site 200 currently has stronger site traits for the objective but West Site 200 can be effectively designed to fit the convenience advantage that location carries in relation to Montrose and Waverly.

This report's recommended retail model can be adjusted to suit a specific site when determined and the retail interests of the developer/property owner; i.e., an updated retail complex and performance forecasts, accordingly.

Recommended Montrose Retail Complex									
Tenants	Projected Potential								Comments
	Mkt Shr	Annual \$/Volume	Annual \$/SF	Weekly \$	Weekly \$/SF	Projected Facility TSF	Example \$/SF Rent	Annual Rent	
Conventional Grocery	13%	\$3,942,484	\$281.61	\$75,817	\$5.42	14,000	\$9.00	\$126,000	Retail complex anchor business.
Pharmacy	15%	\$864,629	\$288.21	\$16,627	\$5.54	3,000	\$12.00	\$36,000	Independent pharmacy (not chain drug store).
Liquor	30%	\$648,559	\$324.28	\$12,472	\$6.24	2,000	\$15.00	\$30,000	Full service liquor format.
Fast Food A	8%	\$1,058,773	\$352.92	\$20,361	\$6.79	3,000	\$15.00	\$45,000	Nt'l. chain; suggesting co-brand w/fuel center.
Full Service Restaurant	7%	\$926,427	\$308.81	\$17,816	\$5.94	3,000	\$12.00	\$36,000	Indep.; suggesting end cap for patio option.
Coffeehouse	2%	\$264,693	\$264.69	\$5,090	\$5.09	1,000	\$18.00	\$18,000	Independent; w/snacks & wi fi.
Fuel Center (gas only; no retail)	19%	\$2,550,366	\$1,275.18	\$49,046	\$24.52	2,000	\$20.00	\$40,000	Suggesting co-brand w/grocery store. If separate entity, then plus approx. \$15k inside sales.
<b>Gallons Forecast</b>		<b>728,676</b>		<b>14,013</b>					
"Dollar" store	0.3%	\$548,170	\$219.27	\$10,542	\$4.22	2,500	\$10.00	\$25,000	Smaller format chain like Dollar Tree.
Daycare	35%	\$367,975	\$183.99	\$7,076	\$3.54	2,000	\$7.00	\$14,000	Facility rent, but need for play yard.
<b>Identified Retail Totals Averages</b>		<b>\$11,172,076</b>	<b>343.76</b>	<b>\$214,848</b>	<b>\$6.61</b>	<b>32,500</b>	<b>\$11.38</b>	<b>\$370,000</b>	<b>6 primary tenants depending on co-branding. Average rent plus CAM</b>
<b>Other Suggested Options</b>									
Fast Food Option B	4%	\$529,387	\$352.92	\$10,181	\$6.79	1,500	\$18.00	\$27,000	Subway, Cousins Subs, etc.; suggesting co-brand w/grocery or branded c-store.
Bank Out Parcel	Performance not projected (not a defined retail category)						Real estate sale		Est. 4,000 sf branch bank format; out parcel.
General Shops	Performance not projected (undefined retail category)					4,500 (3 shops at 1,500 sf each)	\$15.00	\$67,500	Prof. services; maybe including local business incubator if w/subsidized program.
Mixed-use development	Consideration given a broadened development plan including residential and/or senior living.								

**Notes**

1. Example rent is FYI, and dependent on the costs and qualities of the property, shopping center design and development.
2. There are several suggested co-brand or co-tenants of a single facility, like grocery/pharmacy, which would impact the estimated square feet with this retail complex model.

**Montrose Trade Area Retail Categories Reviewed**

Households: 3,861 Population: 11,016 Expenditures	Today's Retail Potential by Category				Competitor Structure			Projected Potential for Rockford Retail Complex					
	% HHD Expenditures	Annual HHD Expenditures	Monthly Potential	Weekly Potential	Est. Primary Competitors	Aver. Weekly \$ per Comp.*	Aver. Mkt Shr	Mkt Shr	Annual \$*	Weekly \$	Est. Store Size	Weekly \$/SF Productivity	Retail Description
<b>Total Household (HHD)</b>	<b>100.00%</b>	<b>\$219,268,014</b>	<b>\$18,272,335</b>	<b>\$4,216,693</b>									
<b>Food At Home*</b>	<b>14.31%</b>	<b>\$31,382,468</b>	<b>\$2,615,206</b>	<b>\$603,509</b>	<b>7</b>	<b>\$75,439</b>	<b>12.50%</b>	<b>13%</b>	<b>\$3,942,484</b>	<b>\$75,817</b>	<b>14,000</b>	<b>\$5.42</b>	<b>Grocery store</b>
<b>Alcohol Beverages</b>	<b>0.89%</b>	<b>\$1,945,678</b>	<b>\$162,140</b>	<b>\$37,417</b>	<b>3</b>	<b>\$9,354.22</b>	<b>25.00%</b>	<b>30%</b>	<b>\$648,559</b>	<b>\$12,472</b>	<b>2,000</b>	<b>\$6.24</b>	<b>Liquor store</b>
<b>Tobacco Products</b>	<b>0.67%</b>	<b>\$1,475,629</b>	<b>\$122,969</b>	<b>\$28,377</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>15%</b>	<b>\$245,938</b>	<b>\$4,730</b>	<b>1,000</b>	<b>\$4.73</b>	<b>Tobacco shop</b>
<b>Food Away From Home</b>	<b>5.43%</b>	<b>\$11,911,199</b>	<b>\$992,600</b>	<b>\$229,062</b>	<b>10</b>	<b>\$22,906.15</b>	<b>10.00%</b>	<b>Projecting breakfast, lunch &amp; dinner restaurant format.</b>					
Breakfast	0.38%	\$841,746	\$70,146	\$16,187				8%	\$1,058,773	\$20,361	3,000	\$6.79	Full menu fast food chain
Lunch	1.69%	\$3,707,057	\$308,921	\$71,290				4%	\$529,387	\$10,181	1,500	\$6.79	Chain sandwich shop.
Dinner	2.87%	\$6,282,773	\$523,564	\$120,823				7%	\$926,427	\$17,816	3,000	\$5.94	Independent full service.
Snacks/Non-alcoholic	0.49%	\$1,079,499	\$89,958	\$20,760				2%	\$264,693	\$5,090	1,000	\$5.09	Indep.coffee shop
<b>Furnishing/Home Equip.</b>	<b>3.14%</b>	<b>\$6,874,488</b>	<b>\$572,874</b>	<b>\$132,202</b>	<b>Not recommended for the market.</b>								
Furniture	0.73%	\$1,592,707	\$132,726	\$30,629									
Major Appliance	0.42%	\$918,765	\$76,564	\$17,669									
Small Appliance	2.13%	\$4,671,958	\$389,330	\$89,845									
Misc. Equipment	10.15%	\$3,185,787	\$265,482	\$61,265									
<b>Health Care:</b>	<b>2.37%</b>	<b>\$5,187,771</b>	<b>\$432,314</b>	<b>\$99,765</b>	<b>No local retailer</b>			<b>15%</b>	<b>\$864,629</b>	<b>\$16,627</b>	<b>3,000</b>	<b>\$5.54</b>	<b>Indep. Pharmacy</b>
Drugs	0.93%	\$2,031,130	\$169,261	\$39,060						230	Est. scripts/week @\$65 per		
Personal Care Prod./Serv.	1.20%	\$2,632,395	\$219,366	\$50,623									
Medical Supplies	0.24%	\$524,247	\$43,687	\$10,082									
<b>Vehicles:</b>													
<b>New &amp; Used Purchases</b>	<b>5.57%</b>	<b>\$12,206,251</b>	<b>\$1,017,188</b>	<b>\$234,736</b>	<b>Not recommended for the market.</b>								
<b>Gasoline/Motor Oil</b>	<b>4.79%</b>	<b>\$10,511,596</b>	<b>\$875,966</b>	<b>\$202,146</b>	<b>4</b>	<b>\$50,537</b>	<b>25.00%</b>	<b>19%</b>	<b>\$2,550,366</b>	<b>\$49,046</b>	<b>Using example \$3.50/gal.</b>		<b>Fuel center assoc. w/groc.</b>
<b>Maintenance &amp; Repairs</b>	<b>1.52%</b>	<b>\$3,333,375</b>	<b>\$277,781</b>	<b>\$64,103</b>					<b>728,676</b>	<b>14,013</b>	<b>Gallons</b>		<b>Conservative per position.</b>
<b>Apparel &amp; Services</b>	<b>3.51%</b>	<b>\$7,704,080</b>	<b>\$642,007</b>	<b>\$148,155</b>	<b>Not recommended for the market.</b>								
Men (16+)	0.10%	\$229,691	\$19,141	\$4,417									
Boys	0.15%	\$329,034	\$27,419	\$6,328									
Women (16+)	1.16%	\$2,553,764	\$212,814	\$49,111									
Girls	0.26%	\$561,454	\$46,788	\$10,797									
Children (<2)	0.18%	\$398,611	\$33,218	\$7,666									
Footwear	0.64%	\$1,394,394	\$116,200	\$26,815									
Other Apparel/Service	0.45%	\$996,899	\$83,075	\$19,171									
<b>Home/Garden Supplies</b>	<b>1.31%</b>	<b>\$2,879,697</b>	<b>\$239,975</b>	<b>\$55,379</b>									
<b>Entertainment</b>	<b>5.66%</b>	<b>\$12,409,153</b>	<b>\$1,034,096</b>	<b>\$238,638</b>	<b>Not recommended for the market.</b>								
Fees & Admissions	1.24%	\$2,709,041	\$225,753	\$52,097									
TV/Radio/Sound Equip.	2.06%	\$4,520,898	\$376,741	\$86,940									
Pets, Toys & Play Equip.	1.46%	\$3,203,150	\$266,929	\$61,599									
Other	0.90%	\$1,976,063	\$164,672	\$38,001									
<b>Dollar store</b>	<b>Multiple categories of Non foods, soft wear and food</b>				<b>No local competitor.</b>			<b>0.3%</b>	<b>\$548,170</b>	<b>\$10,542</b>	<b>2,500</b>	<b>\$4.22</b>	<b>\$ Store per mkt. totals.</b>
<b>Child &amp; Elderly Care</b>	<b>0.96%</b>	<b>\$2,102,714</b>	<b>\$175,226</b>	<b>\$40,437</b>	<b>No local, commercial competitor.</b>			<b>35%</b>	<b>\$367,975</b>	<b>\$7,076</b>	<b>2,000</b>	<b>\$3.54</b>	<b>Child care; plus play yard.</b>

\*Food at Home = retail food expenditures as identified with survey #MNTRS101 grocery survey.



\*The estimated current competitors' aver.sales & market share includes local and aggregate distant competitors' influence.

\*The projected annual \$ for each retail category in the Montrose retail complex accounts for trade area potential plus "beyond" capture (i.e., seasonal, visitors and transient traffic capture).

Retail category potential based on reported consumer sales for 5-mile radius of Montrose and the total trade area defined with the grocery store report.

# Available Commercial & Industrial Sites in Montrose, Minnesota

## Legend

-  Available Commercial & Industrial Sites
-  Montrose City Limits

- #1: PID: 112-500-344-403 & 112-500-344-400. Highway 12 and Clementa. 29.31 acre commercial/industrial subdivision.
- #2 PID: 112-500-354-301. 631 Nelson Blvd. 9,000 ± sq ft. 1.74 acre lot. Highway Commercial. (Former Bayriser Hof Restaurant)
- #3: PID: 112-012-006-210. 381 Nelson Boulevard. Former Lumberyard. .89 acre site commercial site.
- #4: PID: 112-034-004-010. CR 12 North. Rolling Meadows. 2.5 acre Highway Commercial site.
- #5: PID: 112-500-264-102. CR 12 North. Rolling Meadows. 17 acre Highway Commercial site.
- #6: PID: 112-019-001-010. 100 Zephyr Ave. 67,000 sq ft industrial building with 20.66 acres. Industrial site.
- #7: PID: 112-500-011-200, 112-500-012-300 and 112-500-012-201. Highway 12 and Highway 25. Terner Site. 35.67 acre site.
- #8: PID: 112-028-001-020. Highway 12 and Zephyr Avenue. Montrose Retail. 3.56 acre Highway Commercial.

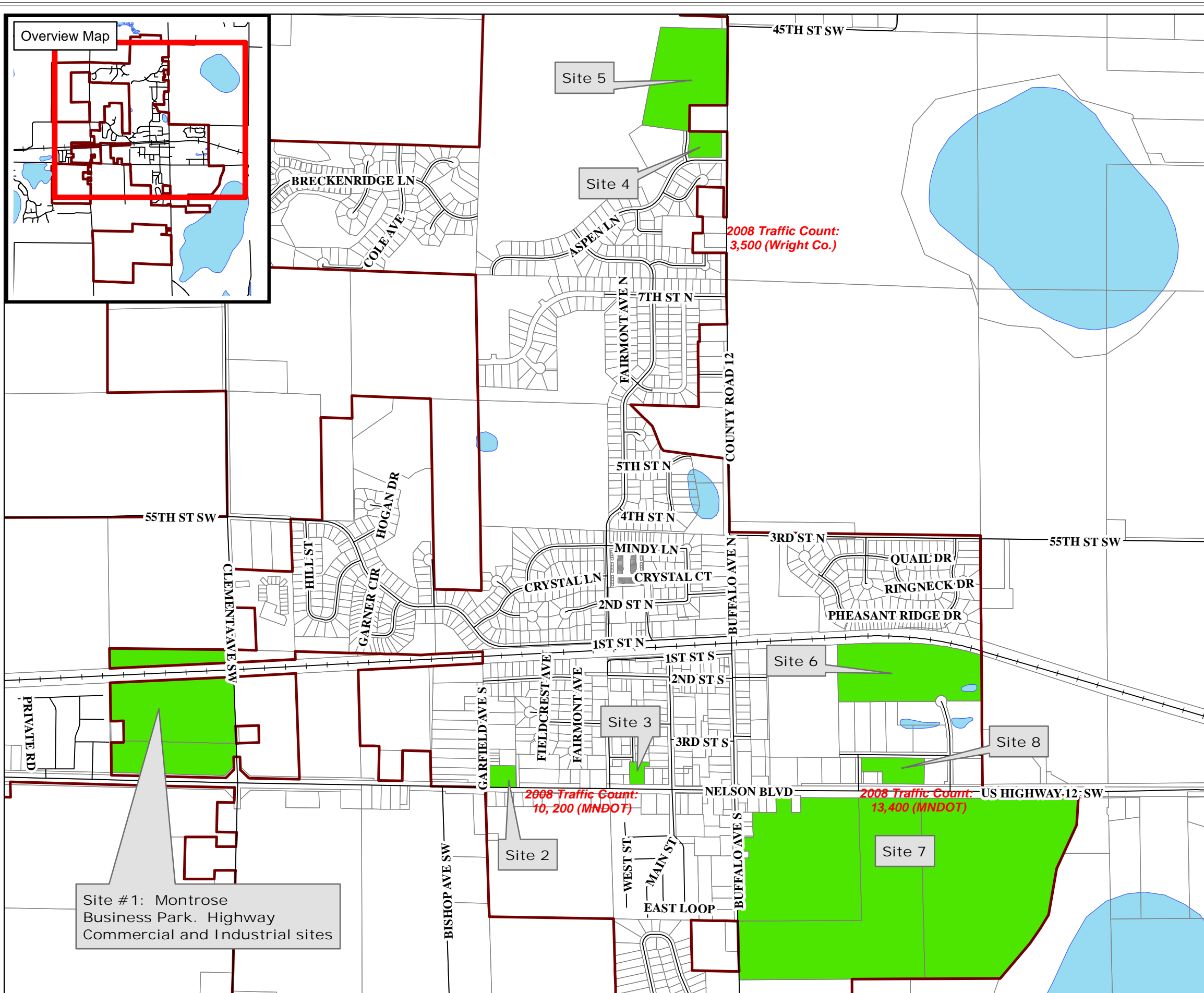
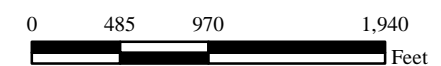


For more information, please see the Individual site information sheets or contact:

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Map Date: May 15, 2011





### Montrose, MN Trade Area

