Background Report:
Market and Development Context

In support of:

2040 Cottage Grove Comprehensive Plan

Prepared for:

City of City of Cottage Grove, MN

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Prepared by:

Tangible Consulting Services

Stantec
# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>Demographic Overview</td>
<td>8</td>
</tr>
<tr>
<td>Economic Overview</td>
<td>13</td>
</tr>
<tr>
<td>Residential Market Context</td>
<td>15</td>
</tr>
<tr>
<td>Retail Market Context</td>
<td>24</td>
</tr>
<tr>
<td>Industrial Market Context</td>
<td>32</td>
</tr>
</tbody>
</table>
Executive Summary

Purpose

The purpose of this background report is to outline the market and development context that shapes the future growth of Cottage Grove. It overviews the unique demography and economic base that characterizes the city. And it investigates the market and development factors that will shape future growth in housing, retail, and industrial development.

The report supports the Cottage Grove 2040 comprehensive and long-range planning process that will establish important parameters for future development.

In General

Cottage Grove is characterized by high quality development in its existing residential, commercial and industrial areas. It has experienced steady and moderately-paced growth over the past seven decades, and can expect that to continue.

It is a community that is well-situated for future growth. It has ample land to support growth in its Business Park, to expand its successful retail areas, and to accommodate additional housing of various types.

The high quality environments that have been created have largely been responsive to the practices of suburban-oriented developers. For this reason, there are some development types that are not well represented:

- The variety of place types and retail formats that is characteristic of older communities, and that have intentionally been created in some newer communities.
- Housing Developments that are responsive to the needs of renters, a lower to middle income workforce, and seniors.

An active public sector role will be required if there is a desire to diversify the development landscape in these ways.

Demographic Overview

Cottage Grove’s demographic mix is heavily shaped by the residential development patterns of the community. The vast majority of residential development is in single family detached homes and townhomes, which were built in the 1950s and later. As a result, households tend to be families, with an income that supports home ownership.

The predominance of owner occupied homes is one of the reasons there are relatively few older residents. And it is consistent with the low rates of unemployment and poverty.

Notwithstanding these facts, there is something of a working class flavor to the community. Compared with many of the communities that are at a comparable stage of development, it has a fewer residents with bachelor’s degrees, and home prices are more affordable.

The City is expecting continued population growth, at a pace that matches the growth over the last decade.
Economic Overview

Cottage Grove has a small job base for a city of its size. It offers 17 jobs for each 100 residents. The job base of Cottage Grove is centered around the retail centers, and its business park. This explains why its top two employment sectors, after educational services, are Retail Trade, and Manufacturing. The top employment sector is Educational Services, which encompasses those who work in the local schools. Almost a third of the workers at businesses in Cottage Grove are residents of Cottage Grove.

Source: US Census Bureau, OnTheMap Application
Residential Market Context

Residential development dominates the built environment in Cottage Grove.

**Observations about residential development include:**

- Development began in earnest in the 1950s. So most of the development has been defined by subdivision ordinance and home builder practices that prevailed from the 1950s to the present.
- Lot sizes stayed fairly consistent over this period (at around a third of an acre), but the size of homes spiked in the last two or three decades to the current norm of over 2,500 square feet of floor area.
- The historic average of around 180 homes developed per year has dropped off during the past decade to around 50 homes per year.
- Cottage Grove is a well-established market for owner occupied detached homes and townhomes. There is a much smaller inventory of multifamily housing developments—although some senior housing development is currently occurring.

Some public support or intervention will be needed to establish housing types that are not well represented in the current housing inventory.

**Land analysis.** Around 1,500 acres of land will be needed to accommodate an estimated 3,500 new single family homes by 2040. Around 75 acres will be needed by 2040 to accommodate around 1,100 apartment units. This would encompass market rate and affordable housing development, as well as housing developments for general occupancy and for seniors.
Retail Market Context

Retail development is focused at two of the Highway 61 interchanges. These retail districts, the Gateway Area and the Jamaica Area, are well positioned for ongoing strength because:

♦ They are located at some distance from competing retail areas in Woodbury and Hastings, which allows them to capture a sizable commuter-shed and destination market.

♦ They have an established set of strong anchors that are well suited to the population in the trade area, and that creates an inviting environment for additional retailers.

Land is available to accommodate retail growth, especially into the Cottage View area, which would be an extension of the Jamaica Area retail district to Innovation Road.

Visionary plans have been developed for two additional retail areas, Langdon Village and Cedarhurst. These areas provide the opportunity to create retail areas that are qualitatively different from the highway-oriented retail districts along Highway 61, in that they area envisioned to be of a mixed-use, pedestrian-oriented development character. An active role will be required from the public sector in order to establish these new retail areas.

**Land analysis.** An estimated 87 acres of land will be needed by 2040 to accommodate a growth in trade area purchasing power of around 40%.
Industrial Market Context

Industrial businesses in Cottage Grove are almost all located in the 300-acre Cottage Grove Business Park.

**Industrial Context Map**

Source: Assessor Data, City of Cottage Grove

The Business Park has a long list of assets that make it attractive for new business development. The most important of these is its strong connection to the regional highway network via Highway 61. But it also boasts large, flat land with good utility infrastructure. And the City has a reputation for being responsive and supportive to development proposals.

The industrial development market is recovering, and that has been observed in expansions of businesses in the Business Park—and in the first new industrial development proposal in a decade.

**Land analysis.** Although the Business Park is only about half developed, there are only a few undeveloped parcels that are larger than 10 acres. There is a good likelihood that these will be purchased and developed over the next decade or two. If the City wants to accommodate ongoing Business Park growth, it should consider steps to maintain a supply of suitable land.

Sources of Information

This report is based on several types of information:

- Market research
- Review of existing reports
- Interviews with local developers and real estate professionals
- Direct observation

Information is filtered against the previous experience of the authors.

As the Cottage Grove planning process progresses, the findings in this report will be modified and augmented by further findings, and as a result of further communication with policy makers, stakeholders, and others.
Demographic Overview

The demographic profile of Cottage Grove has an important bearing on how Cottage Grove will grow and develop in the future.

The character of Cottage Grove’s residents and communities says a lot about who will be attracted to live in Cottage Grove in the future.

The needs and purchasing power of Cottage Grove households are important to retail development. They impact the amount of retail that is viable, as well as what retail stores and shopping center formats are likely to work.

The demographics of the community are an important factor in attracting businesses to Cottage Grove. In the competition for talent, employers are looking for people with the right education, training, and household stability to meet their labor-force needs.

**General findings.** Cottage Grove’s demographic mix is heavily shaped by the development patterns of the community. Single family homes predominate, three-quarters of which were built in the 70s or later. The 1990s were the boom decade, when a full quarter of current Cottage Grove homes were constructed.

Cottage Grove is, accordingly, a family-oriented community. Almost 80% of households are family households—either couples, or families with children. Because of this, the average household size is larger than nearby cities, and larger than the Twin Cities Metropolitan area as a whole. This also makes Cottage Grove skew younger in the age profile of its residents.

It takes some wherewithal to purchase and own a home, and so Cottage Grove experiences a lower rate of poverty, and a higher median income, than the Twin Cities metropolitan as a whole.

**Population**

Cottage Grove achieved an estimated population of 35,600 in 2014, according to the 3-year American Community Survey. This represents a growth of 55% since 1990.
Cottage Grove is projected to continue growing over the next several decades. The Metropolitan Council forecasts population growth as follows.

<table>
<thead>
<tr>
<th>Forecast Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>34,589</td>
</tr>
<tr>
<td>2020</td>
<td>38,400</td>
</tr>
<tr>
<td>2030</td>
<td>42,200</td>
</tr>
<tr>
<td>2040</td>
<td>47,000</td>
</tr>
</tbody>
</table>

This projection is roughly equivalent to a straight-line projection of growth at a rate that is equivalent to that which occurred between 2000 and 2010.

Population and Household Characteristics

There are currently around 12,000 households in Cottage Grove. The Metropolitan Council forecasts that number to grow to 17,300 by 2040.

**Household composition.** Family households predominate, representing almost 80% of total households. 42% of all households have children under 18, compared to 36% in Washington County and 31% in the Twin Cities Metro.

The prevalence of family households in Cottage Grove is echoed in its large household sizes relative to neighboring cities.

Source: 2014 ACS 3-Year Estimates

It can also be seen in the age profile of residents. Almost a third (31%) of Cottage Grove residents are under the age of 20. The proportion of residents who are 60 or older is less than any of the neighboring communities.

Source: 2014 ACS 3-Year Estimates
Minority population. Relative to the Twin cities average, Cottage Grove has a higher proportion of Asian residents, and proportionately fewer African American and Hispanic/Latino residents.

Financial characteristics and employment. Development patterns in Cottage Grove bear on the financial characteristics of residents. Single family homes predominate, with most being built since 1980. So most householders have income and employment characteristics that support obtaining a mortgage.

On the other hand, the homes built in Cottage Grove homes have tended to be more affordable than the average Twin Cities home.

These factors may explain why the median household income in Cottage Grove is higher than the Twin Cities average. But it is a bit lower than many of the other populous cities in Washington County.

Education level.
Cottage Grove residents have less formal education than the residents of many nearby and comparison cities.
4.5% of families in Cottage Grove fall below the poverty line. That is a low proportion by metropolitan standards, but near the Washington County average.

Housing Characteristics

Types of housing. Cottage Grove has a markedly high proportion of single family homes, and a small number of apartments, relative to peer cities. Less than 10% of dwelling units are in apartment buildings.

Tenure (ownership/rental status). The majority of housing units in Cottage Grove are owner-occupied. Only around 1,400, or 12%, of roughly 12,000 households are renting their housing units. This is partly explained by the dominance of single family homes and townhomes in its housing landscape, but it also means that few single family homes and townhomes are being rented.
Almost all Cottage Grove homes are of postwar construction—built in the 1950s or later. The 1990s were the boom years. A quarter of current Cottage Grove homes were built in the ’90s.

Home value. Homes in Cottage Grove are a little more modest, on average, than homes in comparison cities. The average home value in Cottage Grove is $205,000. This is below the average value of homes in both Washington County ($240,000) and the Twin Cities metropolitan area ($213,000). It’s important to note that home sizes have varied greatly over time. Homes built since 2000 are markedly larger and more valuable/costly than those built in earlier decades.
Economic Overview

The economic and business base of Cottage Grove is relevant to the City’s future growth and development. Workers are an important component of the daytime population of the City, and can support local restaurants and retail businesses. Future business growth, and the types of businesses that might be attracted to the City in the future, are influenced by the businesses that have already located in Cottage Grove. Even residential growth is impacted by the City’s business inventory, since there are significant benefits to living close to one’s workplace, and so Cottage Grove employees may well become Cottage Grove residents.

Business Establishments and Jobs

According to the US Census Bureau’s OnTheMap application, Cottage Grove had 419 business establishments in 2014. These workplaces provided around 5,600 primary jobs, and around 6,200 total jobs.

This is a smaller business footprint than average for suburban communities. There are around 17 jobs offered in Cottage Grove for each 100 residents. The ratio for the Twin Cities Metro as a whole is about 49 jobs per 100 residents.

The Metropolitan Council, perhaps relying on a different data source, estimated slightly greater employment in Cottage Grove in 2010 (6,484 jobs) than the Census Bureau. The Metropolitan Council foresees job growth in Cottage Grove on the order of 600 to 700 per decade, to 2040.

<table>
<thead>
<tr>
<th>Forecast Year</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6,484</td>
</tr>
<tr>
<td>2020</td>
<td>7,700</td>
</tr>
<tr>
<td>2030</td>
<td>8,400</td>
</tr>
<tr>
<td>2040</td>
<td>9,000</td>
</tr>
</tbody>
</table>

Employment Sectors

The Employment Sector chart illustrates the industry sectors of workers in Cottage Grove businesses.

The top six employment sectors in Cottage Grove are:
- Educational Services
- Retail Trade
- Manufacturing
- Accommodation and Food Services
- Health Care and Social Assistance
- Transportation and Warehousing
- Wholesale Trade

Three of these sectors, manufacturing, transportation/warehousing, and wholesale trade, are undoubtedly rooted in the Cottage Grove Business Park, which offers a location conducive to these industries.

The two strongest sectors in Cottage Grove relative to their average presence in other Twin Cities locations, are:
- Educational Services
- Transportation and Warehousing
Employee Location

Of the roughly 5,600 primary jobs in Cottage Grove, around 1,800 of them are filled by people who are also Cottage Grove residents. (US Census, OnTheMap application) In other words, Cottage Grove residents supply around a third of the workforce in Cottage Grove businesses.

The chart at right shows the inflow and outflow from home to work. Around 15,816 Cottage Grove residents work outside of Cottage Grove. Around 3,758 live elsewhere but work in Cottage Grove. The 1,814 people who are represented by the circle are those who both live and work in Cottage Grove.
Residential Market Context

Existing Conditions

**Single family housing.** Housing in Cottage Grove was first developed in significant numbers in the post-war era. Less than 200 homes remain that were constructed before 1950. The 1950s launched the steady production of single family homes, and the creation of single family home oriented neighborhoods. Starting in the 1950s, over a thousand homes have been built in each decade. They are primarily detached homes, but townhomes have been a growing part of the City’s housing stock.

The characteristics of single family homes and neighborhoods reflects the era in which it was built. Lot sizes have remained fairly consistent over the decades. Home sizes stayed relatively constant over four decades from 1950 until 1990. Homes built since 1990 are markedly larger.

Homes and neighborhoods reflect the practices of the home builders who purchased and subdivided the land—in the layout of streets, the size and arrangement of lots, and the design features of the houses themselves.

A color-coded map of Cottage Grove shows the progression of neighborhood formation over time. The earliest neighborhoods were built south of Highway 61 near the 80th Street exit. The newest neighborhoods are located north of Highway 61 in the northwest corner of the City. (Note that areas colored forest green are parks, not housing development.)
**Townhomes.** 1,300 of Cottage Grove’s single family homes are attached homes in a townhome format. They are scattered in various locations around the City of Cottage Grove, as illustrated in the map below. Over half of all existing townhomes were built in the 2000s.

![Townhome Developments](image)

Source: Assessor Data

**Multifamily housing.** Cottage Grove has a small number of rental apartment and townhome developments. Costar, a market data provider, has records of seven rental apartment and rental townhome developments. These developments, constructed between 1973 and 1996, comprise a total of 716 rental units. In terms of format, they range from townhomes to garden apartments and low-rise apartments. Apartments buildings taller than three stories are not present—with the exception of a couple of senior housing developments.

Three of the housing developments are rent-restricted affordable developments. The other four are market rate developments.

**Senior housing.** Three senior-oriented developments, which are not in the Costar database, expand the multifamily options in Cottage Grove. Norris Square is a market rate senior housing development, with 146 apartment units. It is significant in that it is the only four-story development in Cottage Grove, and one of only two with underground parking. It is the most recently constructed multifamily housing project, having been built in 2010.

White Pine Senior Living is a low-rise development, also recently constructed (in 2008), with 86 housing units. Both of these senior developments offer assisted living and memory care.

Cottages of Cottage Grove offers affordable/subsidized senior housing units in one-story buildings.

A project by Dominium, called Legends of Cottage Grove, is in development, and will offer 184 affordable senior apartment units, with underground parking.
Market Dynamics

Residential Market Characteristics. Cottage Grove has many attractive features for existing and prospective residents. Most neighborhoods have parks, many of which are interconnected via multiuse trails. Larger parks include Cottage Grove Ravine Regional Park, and Grey Cloud Dunes Scientific and Natural Area.

Most neighborhoods are relatively new. Homes are well kept, and have held their value. Public schools are considered to be strong.

Many residents value the semi-rural character of Cottage Grove. It is at the agricultural fringe of the metropolitan area, and yet it may be one of the closest areas to the metropolitan core where that semi-rural character can be found. Connections to the core cities, and the rest of the metropolitan area are strong, with a well-functioning Highway 61 connecting to the Interstate 494/694 freeway ring.

Homes may be attractive to cost-conscious buyers, who are able to buy homes in a range of sizes at a price discount compared to homes in many other suburbs.

There are also some factors that may dampen interest in living in Cottage Grove. Its distance from the urban center is a market negative (even as it may be seen as positive by some homebuyers). As a new city, Cottage Grove lacks an identifiable city center—an element that can contribute to a sense of community. And it is lacking in retail offerings in comparison with some peer cities.

Housing demand. A Comprehensive Housing Needs Assessment was completed for Washington County in 2013 by Maxfield Research. The study identified a Cottage Grove submarket of Washington County, which includes all of Cottage Grove, along with neighboring small cities Newport, St Paul Park, and Grey Cloud Island Township.

The study estimated that, by 2030, the demand for housing in the Cottage Grove submarket would total:

- 5,800 for-sale housing units
- 1,100 rental housing units
- Additional senior-oriented rental housing

The demand from 2013 (the time of the study) to 2020 was also estimated, and it was broken down into a range of housing products, as illustrated in the chart below. Senior housing would also be demanded, amounting to 603 additional units by 2020.

Note that rental housing demand is divided between subsidized, affordable, and market rate housing projects, with over half of the demand for affordable or subsidized products. The Needs Analysis recognized that a marked increase in the development of affordable rental housing would be required to meet this demand.
The Needs Analysis suggested that overall housing growth could be higher if the Red Rock bus rapid transit service is developed.

**Single family housing—detached and townhome.** The Needs Analysis offers information on the sale prices of homes in the Cottage Grove submarket of Washington County.

- From 2000 to 2006, the average sale price increased 56.5%
- From 2006 to 2012, the average sale price decreased 25.2%

Taken together this is a somewhat stronger performance than what occurred in neighboring Woodbury, and in Washington County as a whole.

**Multifamily and senior housing.** With its limited history of multifamily housing development, Cottage Grove is not a well-established apartment market. However, as is true in most parts of the Twin Cities, existing developments have low vacancy rates. The chart shows the vacancy rates for the four market rate developments in Cottage Grove that are in the Costar records.

The current 1.4% vacancy rate in Cottage Grove is lower than both Washington County (2.5%), and the Twin Cities metropolitan area (3.4%).

Rents in the two seniors developments are significantly higher, but more analysis would be required to understand how rents are impacted by the services that are available on site.

Cottage Grove’s two seniors developments also have extremely low vacancy rates.

Rents in the Costar-tracked properties have risen about 13% over the course of the last five years—a little over 2% a year. This is a smaller increase than in most parts of the Twin Cities.
Development Considerations—Single Family Housing

Single family home development is well established in Cottage Grove. It is on the radar screen of well-known national builders such as Lennar, D.R. Horton, and Pulte Homes. Both detached and townhome developments have shown notable success in Cottage Grove.

The slower pace of development in recent years is due to a set of factors, many of which are widespread in the aftermath of the Great Recession. These include decreased builder capacity, more conservative lending practices in both construction loans and mortgages, and a macro shift in preferences toward rental housing and urban living.

In Cottage Grove specifically, the pace of development is also highly dependent on the decisions of a dwindling set of individual landowners about when to sell their properties. If the land is providing an economic return from farming, the landowners may feel they can afford to be patient in waiting for a target land price.

A countervailing factor relates to the metropolitan land supply for single family homes. As other locations that are suitable for single family home development are developed, there could be increased developer attention on Cottage Grove.

Given this combination of considerations, we estimate an increased pace of single family home development in the coming years, although it may continue to lag the historically average pace of development. This is discussed in more detail below.

**Public sector role.** The public sector’s role in the development of detached home and townhome neighborhoods is primarily focused on maintaining subdivision regulations and review processes that result in the development of high quality neighborhoods, and coordinating the provision of infrastructure with the development process.

More assertive steps may be needed, however, if there is a public goal of expanding the diversity of home offerings beyond what builders are delivering. These steps may include outreach to certain developers, or providing incentives.

Development Considerations—Multifamily and Senior Housing

Cottage Grove faces some challenges in attracting multifamily housing development. Apartment and condominium developers are most comfortable building in established market areas, and in fact typically build very near other developments that have performed well and “proven the market.” Cottage Grove lacks a development history that would support this market confidence.

The rent levels in existing developments may give developers pause, since they are about half of the rents that would be required for a new building to make financial sense.

Developers, whether urban or suburban, tend to seek high-amenity locations that have such characteristics as proximity to transit connections, high quality retail areas, or natural settings. It is possible to create a locational context with this kind of characteristics, but such settings are not currently established in Cottage Grove.

Affordable housing development can bring multiple benefits to a city, including providing options for housing a City’s diverse workforce, and establishing a high quality design standard. It is less sensitive to location, since rent levels are capped at defined levels. This makes it easier to attract, in some respects. On the other hand, it typically requires multiple layers of public financial support, which means that a supportive local context is extremely important in attracting this development.

Senior housing will benefit from a high amenity location, but the quality of the site and in-house services are more important than the external context. It will typically require some public subsidy.

**Public sector role.** Fostering a greater set of multifamily options in Cottage Grove is a more difficult challenge than supporting the ongoing buildout of single family neighborhoods. But the public sector’s role will differ for different types of development.

- Building the context for market rate apartments requires a proactive set of activities that must be maintained over time.
- An affordable housing development proposal must be met with support that includes but is not limited to financial resources.
♦ A senior housing development is also likely to require some public financial support.

The following are strategies that can be pursued to increase the multifamily housing options in Cottage Grove.

♦ Rental townhome products could be an early focus, since they are most similar to the low density patterns that have already been established in Cottage Grove, and rents may come close to supporting the cost of construction.

♦ One or more high quality affordable housing developments might establish a high standard for design and good management, while setting the stage for attracting market rate apartment developments.

♦ The City could seek and support the rehabilitation of one or more of the existing apartment buildings for a somewhat higher-income rental market. This could start to establish rent comps that build a financial case for new market rate apartments.

♦ The City might help to establish a high quality setting for new multifamily housing. Plans for the Cedarhurst and Cottage View areas, developed in the Ravine Master Plan, are examples of this, as are concepts for Landon Village, at a Red Rock BRT station area.

♦ Public attitudes can be a barrier to multifamily housing development. These concerns can be softened over time through making opportunities to educate citizens. Options abound for demonstrating how higher density housing can be good neighbors that support local businesses and animate public places. The fiscal benefits of multifamily housing can also be explored.
Land Need Analysis

Single family detached and townhome development.
This historical pace of single family detached and townhome development is well documented in assessor data and building permit records. This diagram is offered again to illustrate the number of homes developed by decade.

![Single Family Homes Constructed by Decade](image)

Starting in 1960, the average number of for-sale homes constructed in Cottage Grove is around 180 homes per year, or 1,800 homes per decade. From 2007 to the present, by contrast, homes have been developed at the much-reduced pace of around 50 homes per year. Some of the reasons for the reduced development are outlined in the pages above.

This analysis uses the following assumptions in projecting future single family detached and townhome development.

- The development market will recover from many of the conditions that have slowed the rate of single family home development. However, some of these conditions are more fundamental changes that will continue to exert influence over the long run.
- Single family development will continue to recover from the Great Recession, which we modeled by showing home production increasing by 10 units per year until a post-recession equilibrium is reestablished.

- The new equilibrium rate of development will be somewhat below the historic rate of development. We estimate 150 low density dwelling units a year will be the new equilibrium rate of development.

Of course, in reality housing production varies greatly with the cycles of economic growth and recession. So the production rate would be expected to exceed 150 units a year in boom times, and underperform that number in recessionary years.

It’s also helpful to think in terms of a window of possibilities. Future housing growth could outperform or underperform these estimates by 30% or more.

The following chart illustrates the estimated growth trajectory.

![Historic and Projected Single Family Housing Production](image)
The following table shows the implications of this growth trajectory on the need for land for single family homes.

<table>
<thead>
<tr>
<th></th>
<th>Home Production by Decade (dwelling units)</th>
<th>Cumulative Home Production (dwelling units)</th>
<th>Cumulative Land Need (acres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 to 2020</td>
<td>500</td>
<td>500</td>
<td>220</td>
</tr>
<tr>
<td>2020 to 2030</td>
<td>1,470</td>
<td>1,970</td>
<td>850</td>
</tr>
<tr>
<td>2030 to 2040</td>
<td>1,500</td>
<td>3,470</td>
<td>1,500</td>
</tr>
</tbody>
</table>

Calculation of the land needed to support single family housing growth is based on the following assumptions.

♦ Average (mean) lot size is 0.35 acres. This is consistent with a median lot size of 0.30 acres, which is the historic norm. Mean (average) lot size is commonly larger than median (typical) lot size, where some homes are developed on a large lot format.

♦ Lots cover 60% of total land. The remaining 40% is used for streets, parks, schools, trails, and common areas such as stormwater management features.

Given these assumptions, the calculation of land from 2015 to 2020 is:

500 single family lots needed
× 0.26 acres per lot
÷ 60% ratio of lot area to total land area
= 220 acres of total land required

The other calculations follow the same pattern.
**Multifamily development.** Land needs for future multifamily development is much more difficult to project than that for single family development.

This is partly because the history of multifamily housing production in Cottage Grove has been very sporadic, as illustrated below.

Using data from the 2013 Housing Needs Analysis, it is possible to project cumulative demand for general occupancy apartments, and new senior housing, to be as follows.

<table>
<thead>
<tr>
<th>Cumulative Demand by 2030</th>
<th>General Occupancy</th>
<th>Senior Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>770</td>
<td>600</td>
<td></td>
</tr>
</tbody>
</table>

But demand estimates are different than growth estimates, because multifamily housing development depends on more than the existence of demand. Multifamily development, whether for seniors or general occupancy, also requires supportive public policies, a constructive public partnership when project proposals are received, and the availability of public financial support.

If we make the assumption that a supportive policy framework and public financial resources are available to produce 50% of the development that the demand would support, we can estimate the following multifamily housing growth by decade.

<table>
<thead>
<tr>
<th>Cumulative Multifamily Housing Production (dwelling units)</th>
<th>General Occupancy</th>
<th>Senior</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 to 2020</td>
<td>128</td>
<td>100</td>
<td>228</td>
</tr>
<tr>
<td>2020 to 2030</td>
<td>385</td>
<td>300</td>
<td>685</td>
</tr>
<tr>
<td>2030 to 2040</td>
<td>642</td>
<td>500</td>
<td>1,142</td>
</tr>
</tbody>
</table>

The cumulative land need for multifamily production is:

<table>
<thead>
<tr>
<th>Cumulative Multifamily Housing Production (dwelling units)</th>
<th>Cumulative Land Need (acres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 to 2020</td>
<td>228</td>
</tr>
<tr>
<td>2020 to 2030</td>
<td>685</td>
</tr>
<tr>
<td>2030 to 2040</td>
<td>1,142</td>
</tr>
</tbody>
</table>

Calculation of the land required to support the housing production is based on an assumed housing density of 15 dwelling units per acre.
Existing Conditions

According to the McComb Group report, Retail Market Analysis and Sales Potential (2015), Cottage Grove’s retail areas encompassed 71 retail stores and 101 service establishments in 2015. Costar data puts the total retail footprint at 1.3 million square feet.

Cottage Grove retail businesses are primarily located at two locations—the Gateway Area at the 80th Street exit and Highway 61, and the Jamaica Area at the Jamaica Avenue exit. Each of these retail areas support an array of businesses in freestanding and strip center formats, and from big box retailers to small stores.

There are two small retail areas to the north, at 70th and Hinton Avenue, and at 70th and Keats Avenue.

The map below, from the 2015 retail report, outlines the Gateway Area and Jamaica Area retail districts. We had added the two smaller retail nodes to the map.

Source: Scan/US, Inc. and McComb Group, Ltd.
Gateway Area. The Gateway Area at 80th Street and Highway 61 has a total of around 450,000 square feet of total retail floor area. If office developments are included, it is about 590,000 square feet of floor area.

The total floor area has reduced by 200,000 square feet over the past 10 years by the closures of a Home Depot store in 2007, and a Rainbow Foods store in 2014. It will gain a new anchor this year in the form of a 95,700 square foot Hy Vee grocery store.

Jamaica Area. The Jamaica retail area at Jamaica Avenue and Highway 61 has around 770,000 square feet of total retail floor area. Including office development, the total is 870,000 square feet.

Keats & 70th Street. The neighborhood retail node at Keats & 70th is comprised of a SuperAmerica gas station/convenience store, a standalone retail building, and a strip center. Together they offer around 22,000 square feet of retail floor area.

Hinton & 70th Street. The neighborhood retail node at Hinton and 70th Street offers around 56,000 square feet of commercial floor area—38,000 square feet of office space, and 18,000 square feet of retail.
Market Dynamics—Regional

**Metropolitan Area.** The Twin Cities is a growing region with a vibrant and diversified economy—factors which support a positive long-term outlook for retail development in the region.

Current market conditions are also strong. The economic recovery has supported store openings by established retailers and new entrepreneurs. This has resulted in steadily declining vacancy rates, and increases in retail rents.

**Retail Rents & Vacancies**

*Twin Cities Metro*

![Retail Rents & Vacancies Graph](image)

Source: Costar

Improving conditions are also seen in the positive absorption of retail space. And, while still nowhere near its pre-recession pace, an upward trend in the development of new retail space can clearly be seen.

**Retail Absorption and Construction Deliveries**

*Twin Cities Metro*

![Retail Absorption and Construction Deliveries Chart](image)

Source: Costar

**Woodbury Submarket.** Cottage Grove is in a southeast metro retail submarket which Costar has designated the “Woodbury Submarket”. The majority of the Woodbury Submarket is in Washington County. This submarket is experiencing a very similar pattern to the metropolitan area as a whole. Vacancy rates have fallen from 5 ½% to 4 ½% since the beginning of 2013, and there has been positive absorption of retail space in 11 of the past 14 quarters. Average quoted rents are around $14.50 per square foot.

**Retail Vacancy, Absorption, and Deliveries**

*Woodbury Submarket (Includes Cottage Grove)*

![Retail Vacancy, Absorption, and Deliveries Chart](image)

Source: Costar
Market Dynamics—Cottage Grove

Characteristics of existing retail areas. Cottage Grove’s location relative to other retail areas has an important impact on the opportunity for additional retail development in Cottage Grove.

One way to understand Cottage Grove’s surrounding retail context is by viewing the array of shopping centers close to Cottage Grove. The map below illustrates shopping centers tracked by Costar according to type of center. Centers are given circular symbols that are illustrative of the size of the center. Large circles indicate regional centers. Small circles illustrate neighborhood-oriented retail centers.

Source: Costar

Retail areas along the northern edge of Woodbury are the destination retail focus of the east metro. Interstate 94, where the retail areas are primarily situated, carries around 90,000 automobile trips each day, which is significantly more than Highway 61 in Cottage Grove. The retail areas in Woodbury benefit from a commuter-shed that extends north and south, and also well into Western Wisconsin. This has resulted in the presence of 4.4 million square feet of retail space in Woodbury, compared with 1.3 million square feet in Cottage Grove. Discounting for its greater population, Woodbury has a per capita retail footprint that is 1.8 times that of Cottage Grove.

One effect of the retail primacy of northern Woodbury is that the many destination retailers who already have a presence in northern Woodbury may be reluctant to open a second store 10 miles away in Cottage Grove. But Cottage Grove has its own locational strengths. Woodbury’s retail areas are 6 to 10 miles away by automobile. To the southeast, the nearest retail areas are a similar distance, and are smaller than the retail areas on Jamaica Avenue and 80th Street.

Highway 61 is a commuter-shed highway in its own right. It is the most direct path to the central cities for most Cottage Grove residents, and for residents to the south and east of Cottage Grove, including those who live in Hastings, and in Prescott, Wisconsin. Around 35,000 automobile trips are recorded daily on Highway 61, and Cottage Grove’s retail areas are highly visible from Highway 61.

The cross streets carry important traffic volumes as well. The average daily traffic (ADT) on 80th Street is around 19,000 north of Highway 61, and 17,000 south of Highway 61. Jamaica Avenue carries 17,000 ADT north of Highway 61, and 10,000 south of Highway 61.

Retail demand—trade area population and spending. Retailers understand their customer base in terms of a) numbers of, and b) preferences of, potential consumers. They ask a) how many consumers are likely to be drawn to or past a particular store location? And b), what are the shopping patterns of the particular groups of consumers that are in the vicinity of retail location?

The Retail Market Analysis report defined a primary trade area for Cottage Grove retail areas. A primary trade area is the area from which 80% of the demand for retail goods and services is expected to come from.
On the basis of this trade area, the Retail Market Analysis estimated a trade area population of around 100,000 people, and households numbering around 36,000. Average household income in the trade area was estimated to be around $95,000 per year. These figures allow an estimate of the total retail purchasing power, or spending potential, of households in the trade area. The following table provides this spending potential, broken out by certain broad categories of store types.

### Cottage Grove Trade Area
Retail Purchasing Power, 2015 & 2020

<table>
<thead>
<tr>
<th>Merchandise Category</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shopping Goods</td>
<td>$506,198</td>
<td>$624,319</td>
</tr>
<tr>
<td>Food Service &amp; Drinking</td>
<td>$190,515</td>
<td>$234,970</td>
</tr>
<tr>
<td>Convenience Goods</td>
<td>$288,188</td>
<td>$355,433</td>
</tr>
<tr>
<td>Gasoline Service Stations &amp; Convenience</td>
<td>$209,484</td>
<td>$258,366</td>
</tr>
<tr>
<td>Other Stores</td>
<td>$502,330</td>
<td>$619,546</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,696,715</strong></td>
<td><strong>$2,092,634</strong></td>
</tr>
</tbody>
</table>

Source: McComb Group, Ltd
Note that total retail spending by households in 2015 in the trade area is estimated to be approximately $1.7 billion annually.

Cottage Grove’s retailers capture a “market share” of this spending, which varies by store type. For most categories the Cottage Grove market share ranges between 15% and 35%. That is above average for retail areas in the Twin Cities—which the Retail Market Report credits to the City’s distance from competing shopping areas in Woodbury and Hastings.

Retail demand—consumer segmentation. Consumer preferences and behavior in the Cottage Grove trade area are somewhat distinctive compared with consumer preferences and behavior in the core cities, or in rural parts of Minnesota. And that matters for the types of stores that may do well in Cottage Grove.

One way retailers think about customer character is through identifying distinctive demographic and cultural groups that customers fall into—which are associated with distinctive spending patterns. This categorization of consumers is called segmentation.

In ESRI’s “Tapestry Segmentation” system, almost 70% of the trade area population falls into five segments (out of 67 ESRI segments). Their descriptions paint a portrait of the dominant demographic/cultural groups in the trade area, and their shopping behaviors. A brief profile of each segment is offered below. Much more detail can be obtained online.

**Tapestry Segments: Retail Trade Area**

- **Parks and Rec.** This segment comprises 19% of trade area households. Most households are two-income families approaching retirement. They are “practical homeowners who have bought homes within their means.” They budget wisely, and will carefully research big ticket items.
- **Middleburg.** This segment comprises 17% of trade area households. These households enjoy semirural subdivisions. They are conservative, family oriented consumers. Spending priorities are family goods and activities, and do it yourself projects.
- **Soccer Moms.** This segment comprises 15% of trade area households. It is an “affluent, family-oriented market with a country flavor.” Mostly two income families, they look to a quiet suburban setting to offset life’s pace. Households have higher than average incomes, and are active in family activities. Most households own at least two vehicles, and have the equipment to maintain their property.
- **Green Acres.** This segment comprises 9% of trade area households. They value country living and self-reliance. Most are homeowners. Many are empty nesters. Households are conservative, and active in their communities. They pursue gardening, and outdoor recreation.
- **Boomburbs.** This segment comprises 9% of trade area households. They are primarily young professional families with college educations, who opted to purchase a new suburban home. They appreciate new technology and leisure activities.

Retailers know their markets, and those that sell products appealing to these to these demographic and cultural groups are likely to view Cottage Grove retail areas with interest.
Development Considerations

Cottage Grove is well-positioned to continue building its retail sector. The Gateway and Jamaica Areas enjoy a well-defined locational niche between the commercial areas in Woodbury and Hastings. They capture a healthy commuter-shed and destination market, and there is no evident location for a new retail area to emerge that would take market share from them. In the future, these areas will benefit from further population growth in Cottage Grove, as well as in areas to the south.

Retail development thrives where there are strong anchors. The existing anchors at the Gateway and Jamaica areas, with the addition of Hy Vee in the Gateway Area, are strong and well suited to the trade area population. There is potential for further anchor attraction. For example, a YMCA or similar large health club, and a movie theater complex are suggested in the 2015 Retail Market Analysis report.

There is land available for retail expansion. The Jamaica area along Highway 61 in particular is fortunate to have breathing room. With the development of Walmart, the area between Walmart and Innovation Road has become a natural location for new retail development to be constructed, as population and market demand grows. This retail area, oriented primarily to Innovation Road, but connected to Jamaica Avenue via the Highway 61 frontage road, is called the Cottage View area in the East Ravine Master Plan.

In addition to the Gateway, and the Jamaica/Cottage View Areas, City plans have identified additional areas for retail development. The commercial node at 70th and Hinton is built out, but two other areas have been explored for future retail development as part of a mixed use development vision.

Cedarhurst. The East Ravine Master Plan has identified an expansion of the retail at Keats and 70th Street into the other three quadrants of the intersection. This area takes on a new character, and is dubbed “Cedarhurst” in the plan. It would offer neighborhood oriented retail which would serve newly developed residential neighborhoods to the north and east, as well as higher density residential development in the blocks closest to the intersection.

It could further distinguish itself from the Gateway and Jamaica retail areas by offering some storefront or pedestrian-oriented retail formats—a retail character that is currently absent in Cottage Grove.

Langdon Village. The proposed Red Rock bus rapid transit service offers an opportunity for the City to explore a higher-density, mixed use, development pattern on the south side of Highway 61 at Innovation Road. The vision for the area, called Langdon Village, is for a walkable mix of commercial and community businesses and activities, serving a new higher density neighborhood, as well as the broader City. It could expand Cottage Grove’s retail, both in terms of land area, and in terms of offering a different character of retail development.

New mixed use areas like Cedarhurst and Langdon Village have been created in suburbs like Cottage Grove, but they are challenging from a development perspective. Their distinctive character, and high amenity level, is important for achieving the rents that make the multifamily development work. And yet, retail stores require a certain amount of residential density and pedestrian traffic to do well.

Assertive steps and patience are required on the public sector side. And an innovative master developer may need to be identified as a private sector partner.
Land Analysis

With household numbers around 12,000 today, the Metropolitan Council’s 2040 forecast of 17,300 households represents a 44% increase in number of households over that period. This analysis suggests a similar growth rate of 38% over that period.

Metropolitan Council forecasted population growth over the current estimated population is a somewhat smaller 32% by 2040.

Based on these estimates, this analysis makes the following assumptions.

- The growth in total retail purchasing power to 2040 will be around 40%.
- The trade area’s growth in households and purchasing power will be at the same rate as Cottage Grove’s.
- A 40% increase in overall purchasing power can be satisfied through a 35% increase in the retail land footprint, since efficiencies in land utilization and some more walkable retail formats are likely to be introduced over the time frame.

The existing retail footprint in Cottage Grove is around 250 acres. An additional 87 acres of retail area should be identified to accommodate retail growth.
Industrial Market Context

Existing Conditions

Industrial development in Cottage Grove is focused in the Cottage Grove Business Park. The business park is south of Highway 61, and most easily accessible from Jamaica Avenue.

The Cottage Grove Business Park offers a wide range of parcel sizes, with the largest being 73 acres. Land is fairly flat. Properties are well served by roads and utility infrastructure. Some regional stormwater facilities have been created, which reduces the extent of stormwater infrastructure that needs to be built on site, freeing up more of the land for development.

Industrial Context Map

300 acres of property are developed in the Business Park, and there is room for facility expansion within some properties. Roughly the same amount of property is undeveloped. Aside from a 39-acre parcel recently acquired for development, undeveloped property is in the hands of two property owners, one of which is the Soo Line Railroad Company.

115 acres of land south of the Business Park are also guided for industrial development.

Rail access is available to some of the properties along the northern edge of the Business Park.

Cottage Grove Business Park

Source: Assessor Data, City of Cottage Grove

Source: Assessor Data, other information sources

The property in the most northwesterly corner of the Business Park has received City approvals for an industrial development that would make use of an existing rail line spur.
Market Dynamics—Regional

**Metropolitan Area.** The Twin Cities is a growing region with a vibrant and diversified economy—factors which support a positive long-term outlook for industrial development in the region.

Current market conditions have strengthened in the industrial market. There has been positive absorption of industrial space in each of the past eight quarters. New development of industrial space region-wide is at around 2.5 million square feet per year over the last four years. That’s up from around 0.5 million square feet per year in the preceding three years. But there’s still room to grow, since the historic average is around 5 million square feet of new industrial space per year.

**Industrial Absorption & Deliveries: Twin Cities**

[Graph showing industrial absorption and deliveries]

Source: Costar

The ongoing absorption of industrial space over the last few years demonstrates a growing demand, which manifests itself in two ways. The vacancy rate for industrial property has dropped over the past few years to under 5%. And industrial rents have been gradually rising.

**East Submarket.** Cottage Grove is in the “East” industrial submarket as defined by Costar. The East submarket aligns very closely with the boundary of Washington County.

The East submarket is performing very similarly to the Twin Cities market as a whole, with a vacancy rate of around 5%. Average quoted rents are at $7.80, which is a little higher than the Twin Cities average rent of around $6.50. This could reflect a different mix of industrial building types.
Market Dynamics—Cottage Grove

**Strengths and weaknesses.** While the regional focus of industrial development has been on other parts of the Twin Cities in recent years, the Cottage Grove Business Park has a number of characteristics that make it a strongly competitive location for industrial businesses.

- **Connectedness.** According to interviewees in the development and real estate community, the Business Park is understood to be very well connected to metropolitan freeway system as any vacant industrial land in the metropolitan area.
- **Size of parcels.** Large parcels are available for development.
- **Topography.** Properties are flat, which makes them suitable for large single-level facilities.
- **Rail access.** Rail access is available for some properties.
- **Site readiness.** Business Park properties are well served by the local street network and utilities. Some stormwater management is accommodated through regional facilities.
- **Supportive local government.** The City of Cottage Grove is known for its supportive stance toward business development, and for showing reasonable flexibility with regard to regulatory requirements.
- **Residential options.** Cottage Grove is a developing suburb that will continue to provide a range of home ownership options for employees of local businesses.
- **Transit.** The development of the Red Rock bus rapid transit line would provide opportunities for a reverse commute, which would expand the labor pool for businesses in the Business Park.
- **Area amenities.** There are nearby retail and restaurant amenities that employees of businesses can take advantage of.

This is an impressive set of positive attributes, and there is little in the way of offsetting weaknesses—aside from the simple fact that “greenfield” industrial development has reached this distance from the metropolitan center.

**Rents and Vacancies.** The market strength of Business Park properties is demonstrated in the low level of property vacancies over the past 10 years.

![Industrial Vacancy Rate: CG Business Park](source)

Development of Business Park property took a pause during the great recession, but has now resumed with a set of facility expansions, and the recent acquisition of a 39-acre property for new development. The following chart shows the incidence of new industrial development in the Business Park. The deliveries that are illustrated include both the physical expansion of existing facilities, and new development of industrial facilities.

![Construction Deliveries: CG Business Park](source)
Development Considerations

**Development context.** The competitive landscape for industrial development is different from the competitive landscape for retail, in that industrial development in the Cottage Grove may be weighed against industrially zoned properties all over the Twin Cities.

The positive attributes of Cottage Grove’s Business Park are significant, and are expected to draw greater attention from the industrial business and real estate community over time. In fact, new attention on Cottage Grove is already evident in the recent or proposed expansion of four businesses in the Cottage Grove Business Park, and a new development proposal on recently acquired property.

The Business Park is well suited to both light manufacturing, and office warehouse facilities.

New industrial development in Cottage Grove may be initiated by developers, or by businesses that have need for new facilities. In either case, projects will normally be designed to meet the needs of a particular business user. In the current market context, we are less likely to see the development of an industrial facility “on spec”—that is, without an identified tenant. It is common, however, for a business to occupy newly developed property on a tenant basis—even if the facility was built with their specific business needs in mind.

**Public sector role.** There are several roles the City of Cottage Grove can play in order to attract additional industrial development to its Business Park area. These are roles that the City is familiar with. The City is already taking assertive public action in these areas, and that is a major factor in the existing attractiveness of the Business Park.

- **Site readiness.** The City can continue taking actions to ensure that industrial sites are served by a strong street and utility network. Clearance and grading of industrial land can also contribute to site readiness. Providing common stormwater facilities makes for more efficient utilization of land.

- **Marketing.** The City can continue to take actions to highlight the desirable features of the Business Park, and to keep the Business Park on the radar screen of the commercial broker community.

- **Business friendliness.** The City can continue to demonstrate that it values existing and prospective businesses, and will accommodate new business needs in appropriate ways in its development review process.

- **Increase industrially guided land.** As discussed below, the City should be prepared to increase the size of the business park as needed.

These actions establish a supportive foundation for attracting new business development to the City’s Business Park. They are more fundamental and more important than the provision of public financial support. In fact, although it may be requested by some prospective businesses, it should not be necessary to provide public subsidy in order to attract business development to the Business Park. The attractiveness of the Business Park will continue to grow over time, as comparable Twin Cities properties become more distant from the metropolitan transportation network.

The existing and growing attractiveness of the Business Park should also allow the City of Cottage Grove to set high standards for new development.
Land Analysis

In contrast to the residential and retail sectors, the past rate of property development in the Business Park is not a good indicator of future business growth. Industrial land can reach tipping points at times of high economic activity, as similarly situated areas become built out, and as new development creates a buzz in the real estate community.

These factors could lead to a succession of new development projects in the Business Park over the next five to ten years. Note that three or four additional large developments, similar to the one currently being pursued in the northwest corner of the Business Park, would consume most of the remaining land in the Business Park.

Given this, the City is advised to identify 300 acres of land that could serve as an expansion of the Business Park as needed, with options for further expansion in the coming decades.