

Northfield 3rd Business and Industrial Park Master Plan

Market Analysis

Prepared by Design Workshop

Working DRAFT

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Introduction

Design Workshop, Inc. (“DW”), along with a consultant team led by HKGi of Minneapolis, was retained by the City of Northfield to undertake a community planning process for the potential development of two potential industrial or business park site in the Northfield vicinity, including an 530-acre parcel located to the north of 330th Street, west of Northfield Hospital and south of 320th Street West, and a 450-acre parcel located to the west of Armstrong road, north of 100 Street East, south of County Road 59 and east of Decker Avenue, on the southwest side of the community. DW is responsible for the market analysis component of the project.

Working together with the team’s development consultant, ProLogis, and the planning team lead by HKGi, Design Workshop has completed this market study examining the potential for industrial park or business park development on the two candidate parcels, over the next twenty years, in order to inform the larger planning effort and assess the potential viability for industrial development in the Northfield area. Understanding and responding to trends pertaining to industrial and office development in Northfield, the Twin Cities region, and Minnesota at large will have a direct impact on the long term success of the community’s potential industrial and business parks. The report analyzes current and projected trends for industrial, office, and associated uses in the Northfield area over the near and long-term. Design Workshop summarizes notable competitive development projects in Northfield, southeast Minnesota and the greater Twin Cities metropolitan area that may affect the viability of industrial development in Northfield going forward. The report provides profiles of comparable industrial and business park developments around the country that may inform the planning and design of business parks in Northfield and in particular outlines comparable business park developments that have integrated sustainability in their planning and ongoing operations. The market study concludes with estimates of potential demand for industrial uses and absorption of industrial space in Northfield over the next twenty years, based upon anticipated regional growth trends and assumptions concerning the percentage of industrial development the community will capture over the next two decades. All of this information will help the design team, the city staff, and the public in creating and assessing potential scenarios for the development of one or both of the industrial or business park sites in the Northfield area in coming years.

Study Objectives

The following questions were identified as objectives established for the Northfield business and industrial park market study:

- How has the local industrial real estate market changed over the last few years, and how will recent trends both locally and nationally impact prospective industrial and business park development in Northfield?
- What rate of absorption of industrial and business park space can Northfield expect over the next twenty years, based upon local and regional trends and market dynamics?
- How can Northfield leverage existing examples from other communities to create industrial and business parks that provide returns that exceed the expectations of the local community?

The following report presents the methodology, research and findings from this analysis as well as Design Workshop's synthesis of the information and resulting recommendations.

Trends in Industrial Real Estate

The industrial real estate sector has been undergoing significant changes in the last decade. In a sense, there has been a paradigm shift, with increased importance and focus being directed to sustainability and understanding the needs of the workforce. Factors like cost and source of energy, low impact design, site selection and design, “green” building, attracting knowledge workers and third party validation are weighing more heavily on industrial park projects.

Trends in Energy Costs

The cost of energy is an issue that crops up in many aspects of industrial real estate development. The cost to operate and maintain a facility is critical to the ongoing operational analysis. The amount of energy supplied to the buildings has always been closely watched and budgeted. Now the type of energy is scrutinized as well to see if incentives are available or to meet sustainability goals set by the corporate leadership or required by the local municipality.

Fuel costs are another form of energy consumption that is particularly important to the distribution and manufacturing segments. The pattern for the location of these types of development is based in part on the cost of gasoline. As the cost goes up, there is a tendency to splinter distribution networks, locating smaller facilities closer to the communities being served can reduce the time on the road. When prices drop, companies tend to consolidate their facilities into bigger facilities to centralize logistics.

Trends in Architecture

Industrial development has always involved a careful cost analysis of the type of building being built. Often the least expensive building that can get the job done will be selected. That has begun to change with the increased acceptance of LEED certification (see below). Now the on-going cost of operations and maintenance achieves greater recognition in the decision-making process.

Another trend, originating in the desire to make industrial buildings as useful as possible for as long as possible, has been to design buildings with larger clear heights within. Warehouse facilities and distribution centers that in the past might have had 24-foot clearance inside are being built to 32 feet and over. These “high bulk” buildings have two advantages: first, they provide vertical space for a warehouse operator to expand into when trying to manage inventory very closely; and second, high bulk buildings tend to have greater re-sale potential because they are more flexible.

Trends in Rail

Rail access has traditionally driven the prospects for particular industrial developments in the United States, given that freight or heavy rail has historically transported raw materials such as coal and timber to regional manufacturing facilities. Since the 1990s the rail sector has focused on moving finished goods in addition to raw materials. This trend has involved the transfer of goods manufactured overseas, in lower cost countries in Asia and other developing regions, to rail lines at major ports such as the Port of Los Angeles. Rail lines used shipping containers on flat cars (COFC) or a tractor trailer riding on a flat rail car (TOFC) to transport these goods to inland, multi-modal facilities, for transfer to semi trucks for regional distribution. Following a period of contraction in the 1970s and 1980s, railroad companies are currently expanding tracks, building new freight yards, and acquiring additional equipment to facilitate

this aspect of global trade. Since 2000, railroad companies have spent over \$10 billion on multi-modal facilities and related expansions to manage the global flow of goods from developing regions to domestic markets. Transportation companies have in particular focused investment on key transportation corridors, such as the I-35 corridor stretching from Texas to the Midwest and I-10 across the southern tier of states, and created multi-modal facilities in proximity to freeways in the interior of the nation.

The following factors are driving an increased focus on rail transport over trucks:

- The use of rail can reduce the amount of fuel used per ton of cargo by about a third. As diesel prices potentially increase with periodic energy crises, the fuel efficiency of rail will become more important.
- The trucking industry has experienced difficulty in attracting and retaining sufficient pools of drivers for semi-truck, long distance hauls. The trucking industry has reported having fewer personnel per unit of freight available for cross-country shipments.
- Increased congestion on the nation's freeways and other major roads has increased delivery times for shipments. As railroads continue to add routes and enhance existing corridors, the industry will continue to strengthen its competitive edge versus trucking.

However, changes in rail regulations in the mid-1990s that increased the required size and weight for standard railroad cars may slow the use of rail in some areas. Many short-line railroad companies, in particular, face potential economic strain from the cost of upgrading facilities and rail cars. Upgrading track to meet the new standards will cost an estimated \$7 billion nationally. In many cases, local governments have had to incur the cost of these upgrades in order to protect local jobs and their industrial bases.

Implications for Northfield:

- Northfield does not present an ideal location for a multi-modal transport facility. However, its access to rail may become more valuable in the future as fuel costs rise and increase the competitive edge of rail over trucking.
- The Northfield government may need to assist financially with required upgrades to infrastructure necessary to serve the potential industrial or business park locations in the community, given that a short-line railroad company currently operates the rail line running through Northfield.

Trends in Sustainability in Business and Industrial Parks

Over the last twenty years, a number of communities domestically and around the world have worked to infuse sustainability in various forms in new and existing business or industrial parks. While promoting "sustainability" dovetails with goals to enhance corporate citizenship and the overall marketability of companies and has become a popular buzzword, the extent to which business parks integrate sustainability varies widely. While the office development sector has largely embraced "green building," including the achievement of LEED certification or eligibility for particular buildings or facilities, the development sector in the United States is still learning about and applying ideas

surrounding “eco-industrial parks” and similar initiatives to integrate sustainability in all aspects of business and industrial park development and ongoing operations.

The application of sustainable principles to industrial development can be viewed in terms of steps along a progression to the creation of a fully integrated Econ Industrial Park, as demonstrated in the diagram below. This progression begins with the establishment of a park that includes LEED-certified buildings. This process requires effort and initiative on the part of the developer of an individual building, but does not involve the creation of sustainable-oriented relationships with the rest of an industrial development, except to the extent that LEED certification requires the implementation of site-related best practices. The next step is to develop the entire park with a clear set of sustainability principles. This requires more commitment from the master developer and very good coordination between consultants. It does open an opportunity for marketing the site as “sustainable.” The next step beyond sustainable site design is selling or leasing the buildings within the park to businesses that have a sustainability focus – either they provide a service or product that can be considered “sustainable” or “green,” or their corporate values are strongly oriented in this direction. This level of commitment requires more effort in finding and screening companies that will become part of the park (and narrowing the selection pool from the beginning). It does offer the opportunity of cross-marketing and co-branding). At the top of the sustainability spectrum is the Eco-Industrial Park.

Figure 1: Levels of Sustainability for Industrial Parks



Source: Design Workshop

Eco-Industrial Parks

The Eco-Industrial Park (EIP) concept has emerged over the last twenty years, and today the full range of business and industrial park developers have become at least somewhat familiar with EIP concepts. Indigo Development, a team of professionals from Dalhousie University in Nova Scotia, and Cornell University's Work and Environmental Initiative, first used the EIP term in the early 1990s. In 1994, the Environmental Protection Agency (EPA) awarded a contract to Research Triangle Institute (RTI) and Indigo to further develop the EIP concept and conduct an initial case study. By the fall of 1996, 17 projects around the U.S. had declared themselves "Eco-Industrial Parks", and at least two had their first tenants. An EIP involves a network of firms and organizations working together to improve their environmental and economic performance. Indigo's EPA research project in the 1990's defined EIPs as follows:

An eco-industrial park is a community of manufacturing and service businesses seeking enhanced environmental and economic performance through collaboration in managing environmental and resource issues, including energy, water, and materials. By working together, the community of businesses seeks a collective benefit that is greater than the sum of the individual benefits each company would realize if it optimized its individual performance only.

The goal of an EIP is to improve the economic performance of the participating companies while minimizing their environmental impact."

Components of the EIP approach include "green design" of park infrastructure and production plants (either new or retrofitted), cleaner production, pollution prevention, energy efficiency, and inter-company partnering.

Many developers and communities have used the EIP term rather loosely. Importantly, true EIPs integrate a variety of strategies to promote overall sustainability in the business park and the surrounding community. A development must be more than simply one of the following:

- A single by-product exchange or network of exchanges;
- A recycling business cluster;
- A collection of environmental technology companies;
- A collection of companies making "green" products;
- An industrial park designed around a single environmental theme (i.e., a solar energy-driven park);
- A park with environmentally friendly infrastructure or construction; or
- A mixed-use development (industrial, commercial, and residential).¹

Eco-Industrial Parks integrate their design and the operation of tenant companies into the local landscape, hydrologic setting, and ecosystem of the local community and minimize contributions to global environmental impacts. In terms of energy management, EIPs maximize energy efficiency

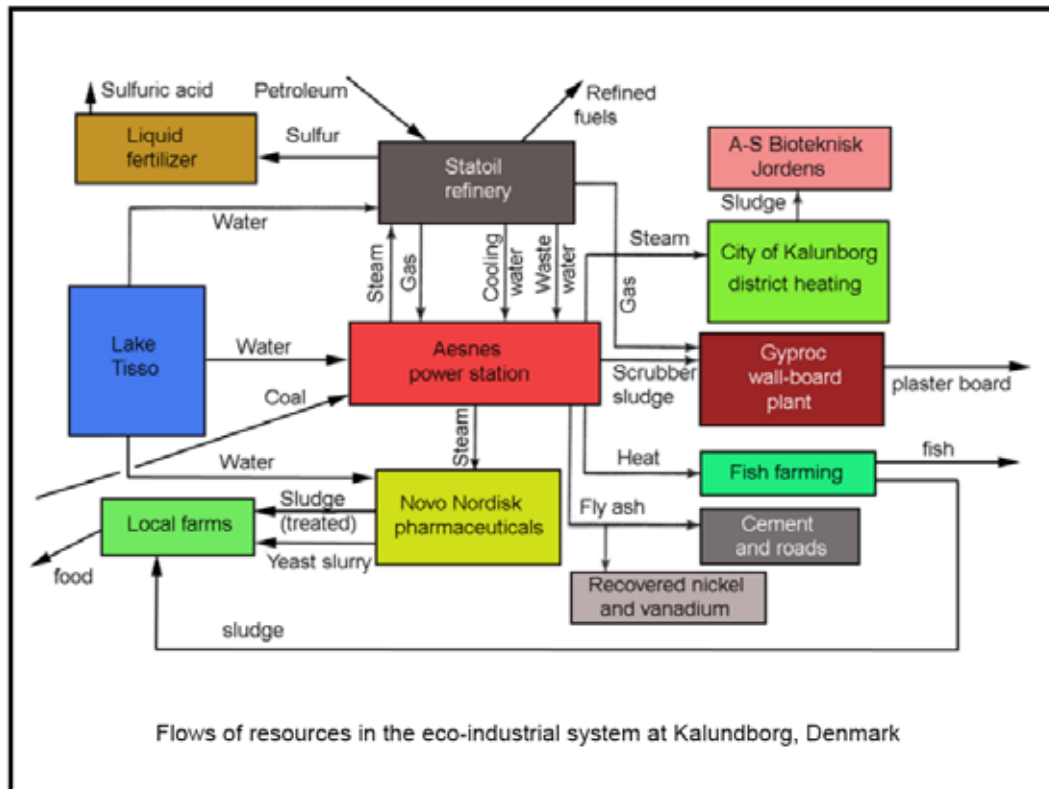
¹ Handbook for Development of Eco-Industrial Parks, 2001.

through facility design or rehabilitation, co-generation, energy cascading, and other means, achieve higher efficiency through inter-plant energy flows, and use renewable sources extensively. The parks manage material flows between businesses and conduct overall “waste management” for the park’s ecosystem. In terms of management, entities overseeing the execution of EIPs must maintain the appropriate mix of companies necessary to use each other’s by-products as tenants change over time, help to manage environmental performance, and operate information systems that keep tenants informed and monitor environmental performance for the park. In creating successful EIPs, companies and community leaders must integrate engineering, architecture, urban planning, business management, finance, landscape design, ecology, information systems, and a range of other disciplines. EIPs, in particular, focus on integrating with broader community initiatives such as the development of affordable housing for employees, managing the overall community waste stream, creating markets for by-products of community production processes, educating citizens concerning environmental best practices, reducing greenhouse gases on a community level, and strengthening economic development planning to attract businesses that fit the profile of an EIP.

Case Study: Kalundborg Eco-Industrial Park, Denmark

The Kalundborg Eco-Industrial Park in Denmark remains one of the most cited examples of an EIP in the world and demonstrates how the various entities within the park collaborate to re-use resources and improve environmental efficiencies. In Kalundborg, companies collaborate to use each other’s by-products and share resources in an eco-industrial park arrangement. Surplus heat from a 1,500 MW coal-fired power plant provides surplus heat to heat 3,500 local homes in addition to a fish farm. The power plant sells its steam to a nearby pharmaceutical and enzyme manufacturer. The reuse of heat reduces the thermal production discharged from the power plant to a nearby fjord. In addition, the coal plant sells gypsum produced as a by-product from the power plant’s sulfur dioxide scrubber to a nearby wallboard manufacturer. Furthermore, companies and governments in the area use fly ash and clinker from the power plant in road building and cement production in the Kalundborg region. The diagram below illustrates the system of re-use and collaboration between the different entities in the eco-industrial system at Kalundborg.

Figure 2: Diagram of Interrelated Processes at Kalundborg Eco-Industrial Park



Source:

The following outlines a summary of the results of the Eco-Industrial Park at Kalundborg:

- **Water:** The companies have reduced the overall consumption of water by 25 percent by recycling water and circulating it between the individual partners in the park. A total of 1.9 million cubic meters of groundwater and 1 million cubic meters of surface water are saved annually.
- **Oil:** The partners have reduced their oil consumption by 20,000 tons per year, corresponding to a 380 ton reduction of sulfur dioxide emissions on a yearly basis.
- **Ash:** The combustion of coal and oil at the power station results in approximately 80,000 tons of ash, which are used in the construction and cement industries for the manufacturing of cement or the extraction of nickel and vanadium.
- **Gypsum:** Every year the local company BPB Gyproc A/S receives up to 200,000 tons of gypsum from Aesnes Power Station, accounting for a large portion of the company's annual consumption.
- **NovoGro:** Local company, NovoGro, substitutes the use of lime and part of the commercial fertilizer on approximately 20,000 hectares of farmland.

Eco-Industrial Parks in the United States

During the 1990s, a number of proposals for eco-industrial parks in the United States created significant buzz in environmental circles. However, a number of years later, very few examples of true eco-industrial parks remain in this country. Few of the 20 projects discussed at a conference held at Cape Charles, Virginia in 1996, for example, are still under consideration. The Cabazon Recovery Resource Park in southern California is one of the few examples in this country of a “resource recovery park” in which various businesses use the waste from one tenant as an input in their operations, as in the model of Kalundborg, Denmark. Operated by the Cabazon Band of Mission Indians, the park covers a 640-acre site but only had two tenants after ten years of operation: a biomass power station and a tire crumbing facility. Observers have noted that the fact that the park has been open for over ten years and now has only two tenants raises questions regarding its ultimate success. Some industrial park planners argue that it is not as efficient for industrial parks to be set up using centralized planning and the organization of tenants centered around material flows and reuse of waste. They note that the example of by-product material flows and recycling networks at Kalundborg occurred spontaneously based on clear economic advantages, rather than organized planning. Without the ability to guarantee or predict material flows from various tenants, eco-industrial parks may find it difficult to attract companies to relocate, or to find a niche for start-up businesses. In addition, some eco-industrial parks may run the risk of over-relying on a particular waste stream. Some have speculated that eco-industrial parks have not gained a strong foothold in the U.S. because few examples currently exist, and it is difficult to attract tenants and financing without proven models of how this unusual industrial park concept may work.² Nonetheless, the eco-industrial park concept remains a potential strategy for a community or an industrial park to explore and to potentially create a niche in the economic development field while meeting community goals tied to environmental protection and sustainability.

Koda Energy Biomass Plant, located on the property of the Rahr Malting Company manufacturing facility in Shakopee, is an interesting local example of a plant using symbiotic relationships to increase overall efficiencies. While it is not a true EIP, the biomass plant takes waste from the malting facility and supplements it with fuel generated from the waste products of other manufacturers in a 60-mile radius. A portion of the power and heat generated from the biomass plant provides energy to the malting facility to reduce its need to draw from the grid, and the rest is sold to local utilities. However, this venture originated from joining the interests of a local Native American tribe with cash resources and the malting company, and may not be something that can be easily replicated elsewhere (see section on Shakopee for more information).

Other Sustainability Strategies

Industrial parks or business parks may follow other routes to promote and ensure sustainability in their operations and planning, including pursuing LEED certification or other third-party validation of sustainability and best management practices.

² “The Eco-Park: Green Nirvana or White Elephant?” Sam Goss, Gareth Kane, Graham Street, Clean Environment Management Centre, University of Teesside, United Kingdom .Retrieved 1/22/10 from <http://www.tees.ac.uk/docs/docrepo/clemance/ecopark.pdf>

LEED Certification

The LEED (Leadership in Energy and Environmental Design) Green Building Rating System has provided a rating system concerning the environmental sustainability of new construction (LEED-NC) and for the operations and maintenance of existing buildings (LEED-EBOM) for a number of years. A certification process that places emphasis on the design and construction elements that bring buildings together in overall developments has been developed and tested in a pilot program, LEED for Neighborhood Development (LEED-ND), and is scheduled to be fully implemented in early 2010. The rating system for LEED-ND is based upon resources of other organizations such as the Smart Growth Network's Ten Principles for Smart Growth, the Congress for the New Urbanism (CNU), and other LEED rating systems. LEED-ND creates a label as well as guidelines for design and decision-making, to serve as an incentive for better location, design, and construction of new residential, commercial and mixed-use developments.

The industrial real estate sector in the United States was slower to embrace LEED than the retail and residential sectors, but the number of LEED certified industrial buildings across the country has increased in recent years. ProLogis, the largest developer of industrial real estate in the country, has found that the cost of constructing their buildings to LEED standards is either equal to or only slightly higher than the cost of construction using conventional practices. The cost of the certification process for LEED adds to the soft costs of a project, but ProLogis believes that LEED certified buildings are more marketable and has received positive feedback concerning LEED from all of its build-to-suit clients. Master developers that intend to retain ownership of industrial buildings or operate industrial park maintenance organizations often decide to pursue LEED certification because they can recoup initially higher construction costs for LEED buildings through faster absorption and lower maintenance costs over time.

Despite national trends favoring the development of LEED certified industrial properties, the Twin Cities industrial market currently lags in terms of sustainability efforts. While the market features a number of LEED certified office buildings, the Uponor manufacturing and distribution facility in Lakeville remains the only LEED certified industrial property in the region. The owner and operator of the Lakeville property, rather than the master developer, pushed for LEED certification.

Northfield has an opportunity to distinguish the community in terms of environmental sustainability in the greater Twin Cities industrial and business park market by encouraging or requiring LEED certification for any buildings in its community business parks and applying the LEED ND standards to any forthcoming industrial or business park efforts. Pursuing LEED designation for construction or new development would satisfy the sustainability goals of many citizens in the community and of the two local colleges and would help to attract companies that hold environmental sustainability as a core corporate value.

Business Segment Analysis

The Comprehensive Economic Development Plan prepared in June 2006 analyzed the business segments most appropriate for Northfield. They used a mix of analytical techniques to determine the following target segments:

- Logistics
- Specialty Manufacturing
- Environmental Technologies
- Health Care and Medical
- Professional and Technical Services
- Information Technology

One of the goals of this report is to review the recommendations of the Comprehensive Economic Development Plan and provide recommendations on whether the business segments listed are appropriate from a market analysis perspective and whether any segments are missing. Our first step was to look at the top employers as of 2009 and see if any patterns had changed. Below is a table of the top 19 firms ranked by number of employees.

Figure 3: Top Employers in Northfield

Business Name	NAICS	Description	Employees
Malt-O-Meal Co	3112	Grain & Oilseed Milling	861
St Olaf College	6113	Colleges, Universities, & Professional Schools	830
Carleton College	6113	Colleges, Universities, & Professional Schools	690
Northfield Hospital	6221	General Medical & Surgical Hospitals	542
Northfield Public Schools- ISD#659	6111	Elementary & Secondary Schools	500
McLane Company	424410	General Line Grocery Merch. Whole.	450
Multek Flexible Circuitry	3344	Semiconductor & Other Electronic Component Mfg.	430
Three Links Care Center	6231	Nursing Care Facilities	180
Cub Foods	445110	Supermarkets & Other Grocery (exc. Convenience) Stores	175
Allina Medical Clinic	6211	Offices of Physicians	150
Laura Baker School	623210	Residential Mental Retardation Facilities	142
Northfield Retirement Ctr	6231	Nursing Care Facilities	141

Cardinal CG	3272	Glass & Glass Product Manufacturing	140
Northfield, City of	9211	Executive, Legislative, & Other Gen. Govt. Support	132
Target	452112	Discount Department Stores	120
Econofoods	445110	Supermarkets & Other Grocery (exc. Convenience) Stores	80
Upper Lakes Foods	4244	Food Distribution	79
Perkins Transport	4841	Specialty Transport	60
Vet Provisions	3254	Pharmaceutical Manufacture	35
Total			5,737

Source: City of Northfield, 2009

The top five employers are in manufacturing, education and health. In fact, five of the 19 are health and medical related, four are in education, three are in manufacturing, three are retail related, two are in distribution and one each are in government and special services. This matches fairly closely with the location quotient (LQ) data presented in the June 2006 plan, with the possible exception of the health and medical segment, which was ranked as average before and now appears to have increased in significance. Educational services and manufacturing were strong before and they remain so.

In order to gain a better understanding of why the industrial users who are located in Northfield chose to come here, and why they stay, the project team met with and spoke to a number of the top employers in town. Specifically we interviewed the following individuals, who were very generous with their time and helpful with the information they provided:

- Tim Geary at Malt-O-Meal
- Jim Hoover at Upper Lakes Foods
- Neil Perkins at Perkins Specialized Transport
- Dwight Kalousek at Cardinal Glass
- Ken Banks at Northfield Hospital

Each person and each organization has a special story as to why they chose to locate in Northfield and what keeps them here, but there were some patterns to the information that these business leaders shared and the advice they offered for attracting (or not turning off) companies to move here.

The qualities that have attracted businesses to Northfield include a strong sense of place and community. This is a city that people like to work in and if they have the chance they would like to live here. The attention the City pays to the elements that enhance quality of life are appreciated. Many of the employers interviewed made the point that Northfield has a well-educated, loyal and reliable workforce. The turnover here tends to be lower than other places, and given the cost of training and

recruiting, that makes a bottom-line difference. In addition, the JOBZ program is very attractive to those that can access it. The location of Northfield can be an advantage in that it is not far from the Twin Cities and I-35 provides access to both Minneapolis and Saint Paul, which sets it apart from the industrial sites to the west of Minneapolis. For distributors and other businesses that use freight services at the airport, it was noted that this location provides quick access to that facility, even during evening rush hour. There is a short line rail running along the river. Malt-o-Meal makes use of it, as do a few others. In general both business leaders and real estate brokers have said that it is valuable to have rail access to industrial land. Potential tenants will ask about it even if they do not ultimately use it.

There are some qualities of Northfield that were revealed in the interviews that may have hindered growth and retention in the past. First of all, the city center is distant from the highway. The competing towns on the I-35 corridor tend to be on the highway. Lakeville is stretched as far to the east as Northfield is, but it has development right up to the interstate. The distributors in Northfield said that the distance is not too great, and made the point that they are close to MN-52 as well and can make a choice as to which route they want to use. Lakeville, Shakopee and Eagan are closer to Twin Cities and to the airport, which may be a factor in some companies' choices to locate there over Northfield. The recent case of Malt-o-Meal choosing an office location in Lakeville may be an example, although representatives at Malt-o-Meal have said that they considered buildings in Northfield first and couldn't find one that met their criteria. One of the disadvantages of being relatively close to the metropolitan area is that companies typically have to pay the same wages as metro area employers, because Northfield is close enough that people can commute. In the past the city did not always actively help businesses to locate and grow in Northfield, but everyone who was interviewed that had dealings with the current economic development and city planning teams gave good marks. We heard from business leaders as well as brokers that it is almost impossible to attract businesses from out of state, because of the tax structure. This is a state-level issue, so it should not impact Northfield any worse than any other location. That said, it does seem that some nearby communities have attracted outside firms – Uponsor in Lakeville, Aldi in Faribault and SPX in Owatonna (see section on competition in the I-35 corridor).

Significance for Northfield

- The business segments recommended by the Comprehensive Economic Development Plan seem appropriate from the perspective of the market analysis – medical/health has already started to grow.
- The interviews with business leaders provide some ideas on how to market the strengths of the community, and protect against the weaknesses – from an industrial user's perspective.

diagram below outlines the percentage of the U.S. population served by various metro areas, based upon a day’s drive. Northfield and the Twin Cities region lack the advantages of a centralized location enjoyed by Chicago and Kansas City and service trade areas similar to those for smaller metropolitan markets such as Reno, Nevada and Oklahoma City. Northfield has the potential to provide distribution services for a local region as well as a larger five state region of the Upper Midwest including Minnesota, Wisconsin, Iowa, North Dakota, and South Dakota.

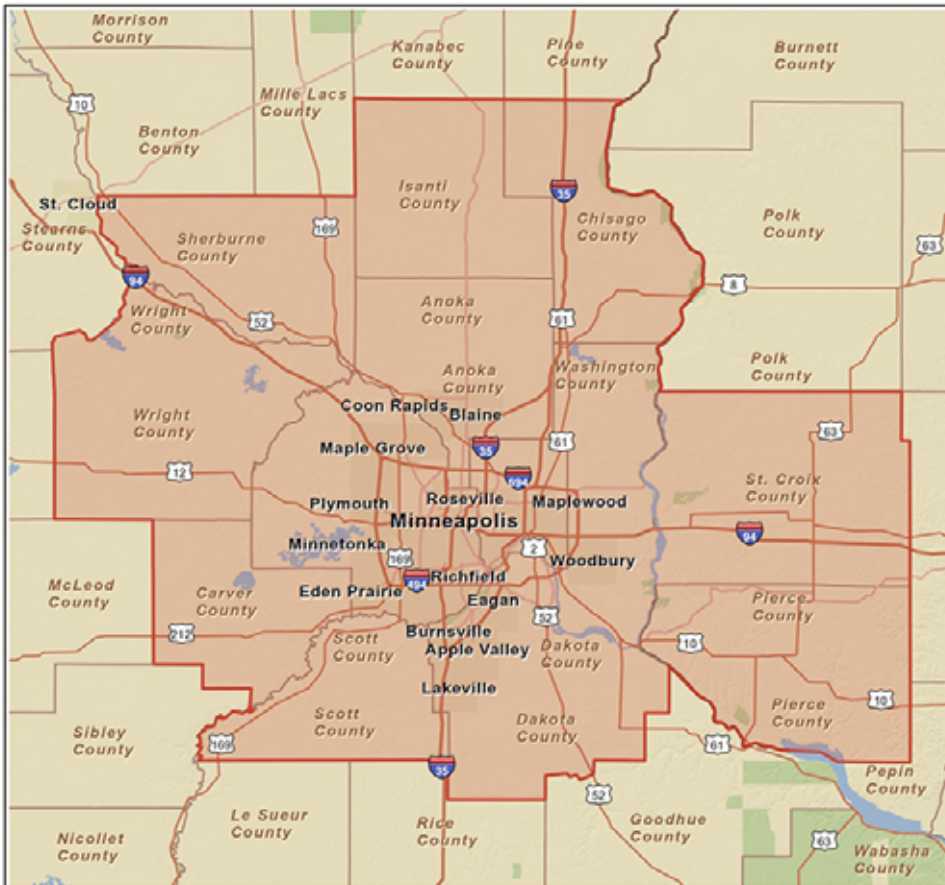
Figure 5: Percent of U.S. Population served by a One-Day Drive (500 miles) from Major Metropolitan Centers



Source: ProLogis, 2009

Northfield enjoys a location on the southern edge of the Minneapolis-Saint Paul metropolitan region and a northern portion of the community extends into Dakota County, one of seven counties served by the Metropolitan Council. One of the two proposed sites for an industrial park in Northfield is located in Dakota County. Trends in the larger Twin Cities industrial market affect the viability for potential business park and industrial park ventures in Northfield.

Figure 6: Minneapolis-Saint Paul Metropolitan Area



Source: ESRI Business Information Services, 2009

The metropolitan area currently has a population of 3.3 million and ESRI projects that the region will grow by 0.92 percent annually to 3.47 million by 2014. Around 12 percent of the 2.23 million employees in the Twin Cities labor market currently work in manufacturing. In 2008 the Gross Metropolitan Product (GMP), a measure of economic activity, was \$193.9 billion, which ranked 14th in the nation. Regional leaders believe the relative diversification of the Twin Cities economy and its strength in the medical device and agri-business sectors provides a firm foundation for a more rapid recovery from the current recession compared to other metropolitan areas.

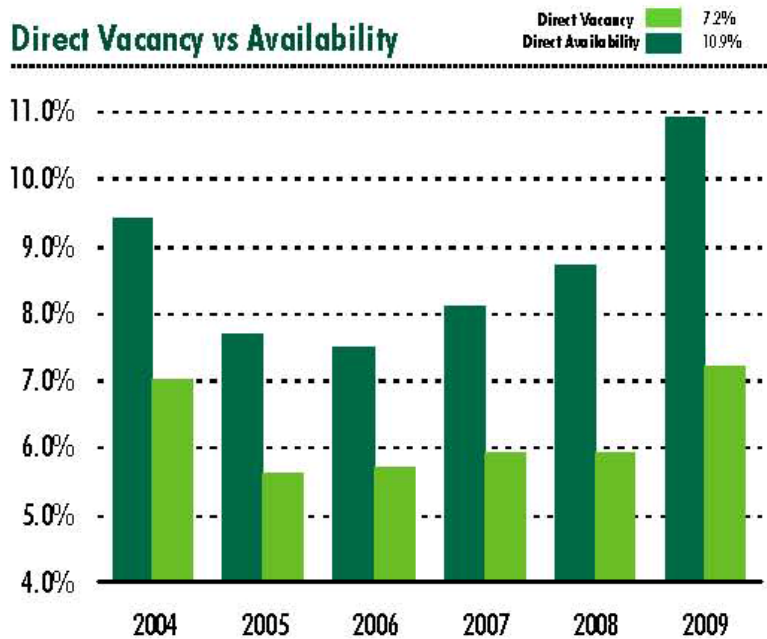
Figure 7: Submarkets for Industrial Real Estate in the Minneapolis-Saint Paul Metro Area



Source: CBRE, 2009

The industrial real estate market in the Twin Cities includes eight submarkets. As of the third quarter of 2009, the metropolitan area includes a total of just over 328 million square feet of industrial space. The direct available rate, a measure of the share of all industrial properties available for lease or sale, stood at 10.91 percent in the third quarter, the highest rate reported in the last five years. The direct vacancy rate has increased from 5.7 percent in 2008 to 7.15 percent in the third quarter of 2009, but remains below the national direct vacancy rate for industrial properties.

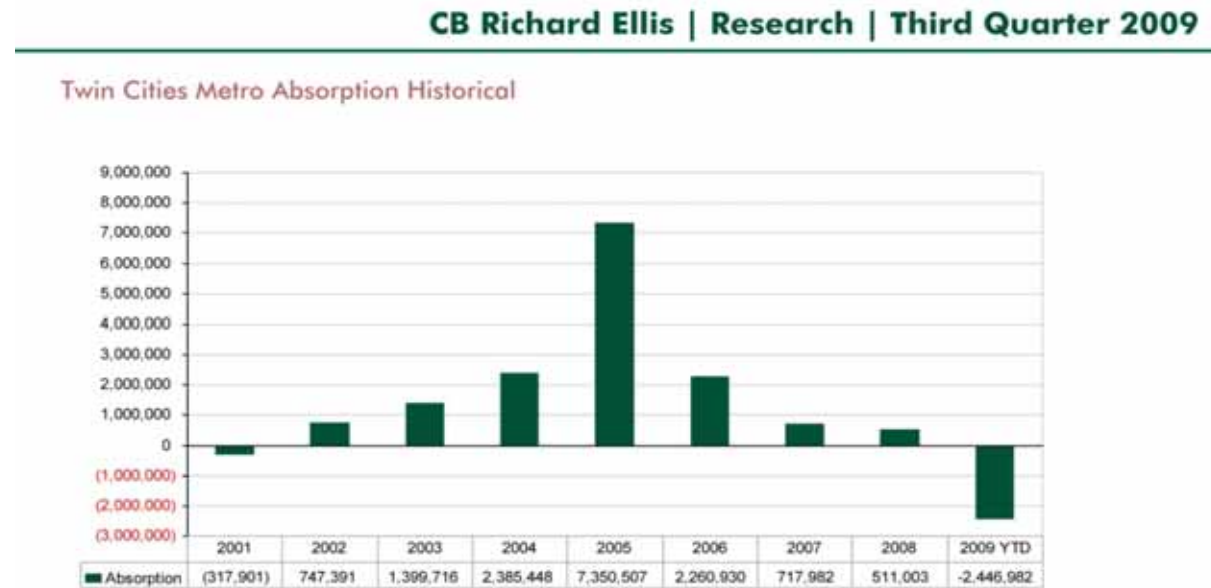
Figure 8: History of Availability and Vacancy in the Minneapolis-Saint Paul Metropolitan Area



Source: CBRE, 2009

The Twin Cities market reported negative absorption of over 2.4 million square feet for the first three quarters of 2009, the worst performance since 2001. The recession has had a significant impact on the local industrial market. Local brokers indicate that the market must first absorb a significant pool of vacant properties before moving forward in earnest with significant development ventures. However, despite this gloom, the market did report just under a million square feet of new construction in 2009, most of which represented the finishing of development projects already in the pipeline. Built-to-suit ventures represented over 60 percent of the new construction total for the first three quarters of the year. Overall industrial construction activity for 2009 decreased 22 percent from 2008, and just over 500,000 square feet of new construction is currently underway in the market (all built-to-suit). Built-to-suit construction will likely comprise all new construction for the next 18 to 24 months as the market slowly absorbs the pool of vacant properties created during the recession.

Figure 9: History of Absorption of Industrial Real Estate in the Minneapolis-Saint Paul Metropolitan Area



Source: CBRE, 2009

The Northwest submarket, stretching along I-94 from the I-494 loop toward St. Cloud, remains the strongest area of growth in the regional industrial market. The presence of relatively affordable housing in communities along this stretch of I-94 has helped to attract companies looking to entice workers from nearby communities.

Community Analysis

Although Northfield competes with the overall Twin Cities market for business park and industrial clients, it vies more directly and more often with communities in the southern portion of the metropolitan area, as well as with nearby communities in southern and southeastern Minnesota. The market analysis considers two competitive market areas for Northfield, in terms of locations where an industrial developer or operator would consider constructing new facilities, as outlined below: A primary competitive area along and near the I-35 corridor, from I-494 to Owatonna, and

- A secondary corridor along US 52, stretching from I-494 south and east to Rochester

Primary Competition Area: The I-35 Corridor

The I-35 corridor, from the I-494 loop stretching south to the Owatonna area, includes the southern portion of the metropolitan area, the exurban areas of Northfield and Dundas, and two communities that border on rural in their orientation, Owatonna and Faribault. This corridor enjoys good north-access via I-35 to markets in Iowa and points south in the Midwest and the central and southern plains and easy access to the Minneapolis-St. Paul International Airport. Leaders in Northfield report vying with these communities most frequently in working to attract new businesses and industries to the community.

Figure 10: The Primary Competitive Area

Source: ESRI Business Information 2010

Shakopee

Located on the southern banks of the Minnesota River to the southwest of the Twin Cities, Shakopee features a wide range of industrial and business park properties, ranging from heavy industrial to suburban business parks, office parks, and mixed-use developments catering to commuters. It serves as the county seat for Scott County, one of the fastest growing counties in Minnesota. County Road 101 follows the Minnesota River and includes a range of older manufacturing facilities, heavy industrial properties, grain elevators and rail and river transfer facilities. The expansion of the river crossing along US 169 over the Minnesota River in 1996 spurred new industrial growth and today the triangle formed by US 169, CR 101, and Canterbury Road includes various manufacturing, distribution and warehousing facilities. The area includes one of the largest concentrations of distribution facilities in the Twin Cities region, given the community's rail and river access and connectivity to other interstates via US 169.

Dean Lakes, a newer development by Ryan Companies along the southern end of Shakopee along US 169, provides a good example of a mixed-use development with accompanying industrial and commercial properties. It includes 1.55 million square feet of new development in total, including 295 single family homes, 300,000 square feet of retail anchored by Lowe's, and 1.2 million square feet of

office and industrial space on a total of 90 acres, including a 100,000 square foot office and technology facility for QLogic. Dean Lakes ties into Shakopee's community trail system via a comprehensive open space network.

Figure 11: Dean lakes Master Plan



Source:

The biomass energy plant at the Rahr Malting Company facility in Shakopee, completed in the spring of 2009, provides a good example of the cooperative and sustainable use of resources between two industrial facilities. The plant is run by Koda Energy LLC, a joint venture of the Shakopee Mdewakanton Sioux Tribe, which owns 51 percent of the business, and the Rahr Malting Company, which owns 49 percent. The plant is located on the malting facility's site and provides power and excess heat energy to the manufacturing operations. The power plant receives about one-third of its fuel from barley dust and other agricultural by-products generated by the malting facility. The other sources of fuel include oat hulls from two local General Mills plants and wood chips from another local manufacturer. Importantly, all the fuel for the plant comes from within a 60-mile radius. The plant produces an average of 12.5 megawatts with a capacity up to 24.1 megawatts per hour. Biomass is about 87 percent efficient in terms of heat transferred to power, outpacing coal's efficiency of 67 percent. Approximately one third of the electricity produced by the plant is used by Rahr, and the remainder is purchased by Xcel Energy as part of its commitment to produce 30 percent of its energy from renewable sources by 2020. The plant took two years to build and cost approximately \$60 million, which was fully financed by the joint owners. The tribe operates the Mystic Lake Casinos in nearby Prior Lake and is the largest employer in the county. The tribe is working with the University of Minnesota to see if it can use native prairie grasses as a fuel stock, thereby helping it to achieve a goal of returning marginally-productive farmland in the area to native vegetation.

Significance to Northfield

- Dean Lakes provides a model for the integration of suburban mixed-use development with adjacent industrial property. The recession has diminished the project's absorption, but should provide a good precedent for this type of integrated project once the economy recovers.
- The Koda Energy plant is a good model for a renewable energy plant supplied by local fuel streams. A feasibility study would be necessary to determine if the conditions in Northfield would justify a similar development in the community. Koda was able to generate all of its own construction capital, so it cannot provide a model for how to finance a similar venture elsewhere. However, it serves as a good example of how such a plant can operate and will hopefully will provide a model that will attract federal and state incentives and backing from private equity sources.

Eagan

Incorporated in 1974, the City of Eagan has developed a significant industrial sector as a result of its proximity to the Minneapolis-St. Paul International Airport. A significant area within the city falls within the influence zone for the airport and therefore presents more suitable locations for industrial and commercial development. In addition, the community has devoted an area west of Highway 13 for industrial growth. Due to its proximity to the airport, the city has not had to offer incentive programs to entice industrial or business park users. The city's lower tax rates compared to its neighbors and access to I-35E and the beltway route, I-494 further enhance its marketability.

Eagan includes a number of businesses oriented to airport or airport-related operations, including Delta Airlines, Lockheed Martin, and UPS. Northwest Airlines, recently purchased by Atlanta-based Delta, maintained its headquarters in Eagan. The headquarters building is on the market, but Delta will retain a data center and flight simulator in the community going forward. Three of the other large employers in Eagan, Thompson Reuters, Blue Cross Blue Shield, and an accounting facility for the US Postal Service, enjoy proximity to the airport but do not derive their operations directly from the airport. The overall transportation network and the significant employee base in Eagan has attracted these and other companies over the years. The co-location of a number of larger corporate users has resulted in investment by the private sector in fiber communications networks in the Eagan area. The additional capacity of these networks helps to attract additional users to the Eagan area.

The city anticipates continued future growth due to the highway network in the area and Eagan's proximity to the airport. It also believes that the presence of Blue Cross Blue Shield in Eagan and of other health care related companies in the state as a whole will drive demand for space from health care-related users in Eagan. Civic leaders also anticipate the strong fiber optic network will continue to attract information technology-related businesses. Food production and distribution companies should also serve as sources of growth for the industrial sector in Eagan in the future.

The city's internally generated employment projections estimate that the number of employees in Eagan increased from roughly 42,000 in 2002 to 52,000 by 2009. The community development department estimates that the number of employees city-wide will increase to 65,000 by 2030. The city included over 13 million square feet of industrial space in 2006, the largest total of any municipality in

Dakota County. Construction of new industrial space in Eagan has varied widely each year over the past few decades. Measured in five year increments from 1980 to 2006, the most significant period of growth spanned 1995 to 1999, when Eagan added 4.6 million square feet of new space. In contrast, during the slowest five year period, from 1980 to 1984, the community added only 386,000 square feet. Eagan has approved over one million square feet of new industrial development that will await improved economic conditions prior to beginning construction. The city has land available for new industrial development in the northwest corner of the community and has been formulating transportation plans and visioning strategies for the property in recent years. The community has been successful in resisting pressures for residential development on land planned for industrial. In addition, a number of infill projects seek to convert old residential areas surrounded by industrial development into more context-sensitive uses, including commercial and industrial development. The city has formed two redevelopment areas and approved Tax Increment Financing for these infill efforts, but to date the poor economy has prevented actual redevelopment from occurring.

Figure 12: Major Employers in Eagan (2009)

Thomson Reuters (West)	7350
Blue Cross Blue Shield of MN	3900
Northwest Airlines	1830
Lockheed Martin	1400
US Postal Service	1400
United Parcel Service	1400
Midwest Coca-Cola Bottling	900
Wells Fargo Mortgage	700
Ecolab	700
Prime Therapeutics	550
Freightmasters	400
Skyline Displays	400
Transport Corporation of America	350
Delta Dental	330
Best Brands	330

Wal-Mart	300
Goodrich Corporation	280
Dart Transit	270

Source: City of Eagan website (www.ci.eagan.mn.us)

Significance to Northfield

- Eagan has a significant pool of unused industrial space due to the consolidation of Northwest Airlines with Delta, and the community still has land available for new industrial and business park development.
- Northfield cannot replicate Eagan’s location-based advantages, in terms of its proximity to the airport and two major interstates.
- The city has been successful in attracting information technology companies because of early private investment in communications infrastructure.

Lakeville

Lakeville is an edge suburb that bills itself as “the southern gateway to the Twin Cities.” With a population of over 43,000 people and a location adjacent to I-35, Lakeville is in the heart of Dakota County and part of the seven-county Twin Cities Metropolitan Area (TCMA), which is governed by the Metropolitan Council and is under jurisdiction of the Metropolitan Transit Authority and Metropolitan Sanitary Sewer Council. The community has been served by rail since 1910, when an entertainment entrepreneur brought it to town. Ever since, Lakeville has looking for ways to capitalize on its transportation linkages. Lakeville initially grew as a milling town but began suburban growth in the 1960s with the completion of I-35 and a regional airport, Airlake Airport. Hitchcock Industries developed 1,500 acres next to the airport as the Airlake Industrial Park in the mid-1960s and today the park is home to 150 businesses and is the second largest industrial park in the state, by acres.

The city has planned for economic growth through industrial and commercial development along its southern margin. Lakeville’s 2008 Comprehensive Plan maps lands along and south of County Road 70 (215th Street West) as a combination of lands for office parks, warehouse / light industrial, and heavy industrial. The plan provides for a transition from office lands near I-35 to the development of heavy industry near the airport at the eastern edge of town. Dodd Boulevard and the rail line provide north-south connectivity and bisect County Road 70. The 2007 update to the Strategic Plan for Economic Development in the city specifically calls for more corporate campus and large office development. The city is trying for more development like the office/manufacturing facilities on Kensington Boulevard north of 215th Street West/CR-70. This area, including the Fairfield Business Park, was originally developed by the city in the mid to late 19990s and has attracted a mix of manufacturing (e.g. Automated Assembly Corporation and a glass manufacturer), a software developer (Image Trend) and offices (D.R. Horton, Verified Credentials, Advanced Wireless, and Malt-O-Meal). This park has enjoyed

strong demand for warehouse and distribution, because of its proximity to I-35 and the metro area, but its developers desire a more diverse mix of users going forward

A market analysis conducted for Dakota County in April 2008 indicated that strong housing growth in the area had fed demand for retail development. The report indicated that Lakeville would absorb the greatest quantity of new retail development between now and 2030 (a total of 2.6 million additional square feet of retail). Furthermore, the report projected that Lakeville would enjoy significant growth over the next twenty years in the office sector, with anticipated growth of an additional 1.175 million square feet, covering an additional 100 acres. The study indicated that only Eagan would enjoy a larger quantity of new office development between now and 2030. The report forecasts that Lakeville will absorb an additional 2.3 million square feet of industrial space on 235 acres over the next 20 years.

The Chamber of Commerce website indicates that Lakeville has approximately 2,500 acres of land available for industrial development and 1,500 acres available for commercial. Civic leaders cite the community's quality of life, family-friendly atmosphere, good business climate (with the lowest taxes in the county for a city over 5,000 people), and transportation connections to roads, rails and air as draws for new businesses. The economic development plan for the city calls for Lakeville to promote itself as "green-urban" in marketing to new companies and to emphasize its connectivity via road and rail to other parts of the region.

First Industrial, the developers of First Park on a parcel east of Dodd Boulevard and south of CR-70, has led a recent push to expand industrial development to other areas outside of Airlake Park. The company recently built a 285,000 square-foot facility for Uponor, a leader in manufacturing and supplying radiant heat equipment for residential and commercial buildings in North America and Europe. The firm relocated from Burnsville to occupy the building. The structure was trend setting in that it is the first LEED-certified building in Lakeville and the first industrial LEED-certified building in the metro area. Unfortunately, the second building in the complex (at 282,000 square feet) has gone un-leased since it was constructed last year. However, the economic development staff at the City indicated that they have received multiple calls from potential tenants who have indicated that a recently constructed building in the 200,000 to 300,000 square foot range is difficult to find in this part of the metro area.

The city has applied a strategy for the last decade or so of not giving specific financial incentives to developers, such as TIF and tax abatements. The city does work with the state to find programs to assist businesses, including state sponsored investment loans and job skills training programs. The JOBZ program is not available in Lakeville because Dakota County is in the Metropolitan Council. The city is not interested in developing its own business or industrial parks at this time. They helped develop the Fairfield Business Park and are not interested in repeating the process. Instead of financial incentives, the City Council has focused on funding projects that improve the quality of life, such as diversifying the housing stock, supporting a healthy mix of retail, improving transit options, and maintaining the certified trout stream that runs through the city. Lakeville also recently spent a great deal of money to add an interchange on I-35 for CR-70, which greatly improved access to the interstate for the industrial property along that route and reportedly helped influence Uponor to locate in the First Park development. The city has been conducting a study over the last three years on the potential benefits of

improving telecommunication infrastructure in the city as a way to attract more commercial and industrial businesses. A group of cities in Dakota County is considering banding together to develop a better network. The economic development staff confirmed that the price of land in Lakeville has escalated and has been impacted by the growth boom of the last five or six years. Therefore, Lakeville does not compete for new business on the basis of cheaper land, but instead based upon its proximity to the interstate and the quality of life attributes of the community.

Significance for Northfield

- Lakeville has been a competitor for industrial development in the past and will continue to be in the future. In addition, its push to attract office-users and corporate campuses will pit it against Northfield – the shifting of Malt-O-Meal jobs to Lakeville is an example of this trend.
- The fact that Dakota County is in the Metropolitan Council and Rice is not could have pros and cons for Northfield – it may subject Lakeville to restrictions and requirements that Northfield does not have to meet. It also may give Lakeville access to benefits that Northfield will have to compete against.
- The Uponsor project set a benchmark for certified “green” buildings in the region – and beyond.
- Northfield should see if its toehold in Dakota County gives it access to the group of cities considering a joint investment in a broadband fiber network.

Faribault

Faribault is the county seat for Rice County and the closest city south of Northfield via either I-35 or Route 3. Unlike Northfield, it is located directly adjacent to the interstate. One of the oldest communities in the area, it is the cross roads for several state highways and is served by two rail lines. Faribault is located 50 miles from Minneapolis-St. Paul and has a population of 28,959. About 65 percent of the population works in or near Faribault, but it is close enough to the Twin Cities to have commuters to that metropolitan area. The average household income is \$61,053 and the per capita income is \$22,958. One of the oldest communities in the region, it started as a trading post and supported textile mills in the late 19th century. The downtown is on the National Register of Historic Places and there are many old homes in the center of town. The main industrial areas are along the west side of I-35 across from the airport north of the city and in the area between Route 3 and I-35, extending south to the Cannon River, which runs through the center of the community. A smaller area of industrial development, known as Airtech Park, is located next to the airport on the west side of I-35. A major state prison, the Faribault Correctional Facility, is located on the south edge of the city on the site of a former state mental hospital.

The city has not established any industrial parks itself and has only assisted private sector development through the facilitation of infrastructure development through public/private cost sharing. The county has assisted with the development of some roadways. Faribault does have economic development programs and has actively pursued getting companies to locate and expand in the community. The city uses Special Assessment Districts and local and state grant programs to help businesses establish the infrastructure they need. The city also uses TIF, tax abatement, the JOBZ program, local revolving funds, state-level investment funds and federal funds through the Small City Development program to assist businesses locating or growing in the community.

The existing land zoned for industrial uses is about two-thirds occupied. The city has three zoning categories that allow industrial use: Industrial (which includes heavy industrial), Industrial Park, and Mixed Use (which allows office and industrial, but not residential). The Comprehensive Plan, last updated in 2003, calls for expansion of the Airtech Park and Lyndale industrial areas. A representative from the Community Development department noted that the City is currently working on an annexation agreement for 240 acres at the north end of town.

To date, the city has seen a strong interest in the distribution sector. Faribault Foods, a state-wide distributor, got its start in this city. Aldi, a German-based multinational food distributor, built a 515,000 square foot facility near the airport in 2007. It was reported that Faribault won them over from another location they were considering in Wisconsin due in part to the incentives provided by JOBZ. Jennie-O Turkey is another major regional distributor, now owned by Hormel. Land-O-Lakes had a 43,000 square foot processing plant in Faribault, but closed it to consolidate operations to its Kent, Ohio location. There is also a burgeoning glass manufacturing cluster in Faribault, anchored by Tru Vue and Sage Electrochromics. While much of the industrial development in Faribault can be characterized as looking functional at best – the priority has been on function, not aesthetics – Sage’s facility adds a more sophisticated architectural appearance to the industrial development at the north end of town.

Over that past two years, Faribault has been working to securing a manufacturing facility for Moventas, a Finnish wind turbine gearbox producer. The process demonstrates the resources that can be brought to bear through a coordinated effort by the city, county and state. Rice County is acting as the legal sponsor for the manufacturer to secure a \$500,000 loan from the Minnesota Investment Fund. The loan, for equipment, will be forgiven if Moventas creates 87 jobs or more during its first two years. The project site is also approved as a JOBZ site, providing tax benefits estimated at \$2 million between 2009 and 2013.

Another recent project can be used as an example of a more progressive approach to heavy industrial development in a community. Avant Energy Services developed the Faribault Energy Park for the Minnesota Municipal Power Agency. Beginning in 2005 and adding capacity in 2007, the combined cycle power plant has a capacity of 262 MW burning natural gas, with the ability to use recycled food oils or fuel oil as a backup. The plant was located in Faribault because of the access to a major natural gas pipeline and a high energy transmission line, but the developers went to great lengths to make the facility attractive to the community. The architecture of the building has historical references and stands out as an attractive landmark in the area, and the plant is located in a 35 acre park with ponds stocked for fishing.

Significance for Northfield

- Faribault’s location on I-35 makes it more attractive for major distributors.
- There is potentially a growing cluster of glass manufacturing, which might be linked to Cardinal Glass’s growth in Northfield. This is one area that might support R&D development.
- The city is aggressively courting industrial users and has plenty of land available without significant CC&Rs or design guidelines

- The Faribault Energy Park is a good precedent for a more community-minded industrial development

Owatonna

Owatonna is located 60 miles from Minneapolis-St. Paul, at the outer edge of the metropolitan influence area. Located at the crossroads of US-14 and I-35, and only 25 miles north of I-90, Owatonna is a linkage point for southeast Minnesota. In addition to its highway connections, the city is served by two rail lines, the Dakota, Minnesota and Eastern Railroad and the Union Pacific Railroad. With a population base of 25,090 (a 2007 estimate) and a supply of 17,000 jobs provided by over 500 businesses, of which 40 are industrial (according to the Minnesota DEED), Owatonna considers itself a center for employment growth in the region. It touts the fact that it has strong bases in manufacturing and finance/insurance supported by a workforce with a broad range of skills. The major employers (listed below) include a glass manufacturer, a business insurance carrier, a window hardware manufacturer and an automobile equipment supplier.

Figure 13: Major Employers in Owatonna (2009)

Company	Sector	Employees
Viracon/Curvlite Inc.	Architectural Glass & Glass Product Mfg	1,700
Federated Insurance Co.	Business Insurance Carrier	1,500
Truth Hardware	Window Hardware & Metalworking Mfg	901
SPX Corp-OTC Div.	Auto Electrical Equipment & Components	800
Owatonna Elementary & Public School Dist.	Secondary Schools	750
Wenger Corp.	Musical Equipment Mfg	460
Josten's	School Rings, Recognition & Printing	376
Cybex Corp.	Exercise Equipment Mfg	358
Cabela's	Sporting Goods, Hobby	353
Owatonna Clinic	Multispecialty medical clinic	350
Steele County	Government	317

Wal-Mart	Department Store	250
Owatonna Hospital	General Medical & Surgical	215

Source: Owatonna Partners for Economic Development (www.owatonnadevelopment.com)

Owatonna has made significant commitments to the business community to secure these jobs. The city owns four industrial parks – Crane Creek Industrial Park, Ebeling Industrial Area, Alexander Industrial park and Sanders Industrial Addition. These parks total 200 acres of industrial and commercially zoned land within a half mile of I-35 and served by rail and a regional airport. The city in coordination with the county and state is building a significant amount of road improvements across I-35 in the southwest part of the city, with completion expected in 2010. These roads will serve the Owatonna Industrial Park, allowing it to expand.

One of the ways the city maintains its strong support of business is through a careful coordination of entities responsible for serving the business community and supporting economic development. The Owatonna Partners for Economic Development is an entity that combines the Economic Development Authority of the City, the Owatonna Area Chamber of Commerce, the Owatonna Business Incubator, Owatonna Public Utilities and Steel County. This group supports the location of businesses here and the growth of existing businesses through Tax Increment Financing provided by the city for land acquisition and site development, the Minnesota Investment Fund – state money tapped by the city for facility and equipment purchases, the Southern Minnesota Initiative Fund industrial development revenue bonds and the industrial loan program administered by the Owatonna Business Incubator. The partnership has recently held a conference on bio energy, seeking investment from European companies. SPX is a good example of a recent success story for the community. This company recently consolidated its operations in Michigan, Florida and Ohio into its plant in Owatonna because it preferred the business climate in Owatonna, the access to transportation and to the presence of skilled workers.

In addition to the road infrastructure program, there are several other growth activities taking place in the city. The Owatonna Clinic (part of the Mayo Health System) is expanding and the Owatonna Hospital (operated by Allina) is building a new hospital. Gopher Sport has built a new 180,000 square foot facility. Rayven is working on 30,000 square foot manufacturing plant with TIF assistance from the city. The city has a good telecommunications network, with high capacity fiber lines, which helps to serve the professional services businesses located there.

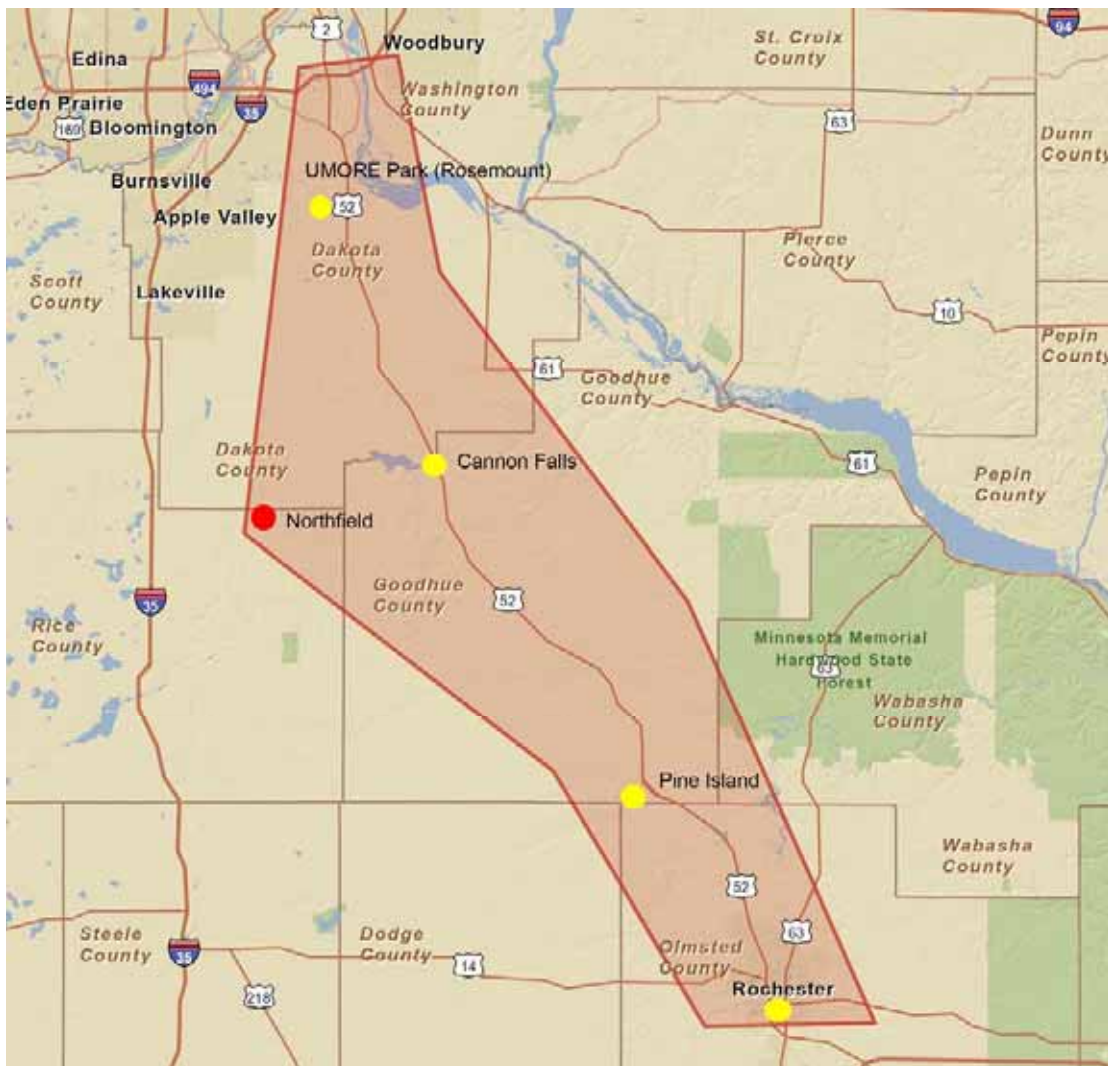
Significance for Northfield

- Owatonna provides a model for a very integrated economic development effort, an incubator program, and for City-owned industrial parks.
- There is evidence that businesses outside the state can be enticed to locate or expand operations here.
- Owatonna has a good mix of manufacturing and professional services.

Secondary Competition Area: US-52 Corridor

The Minnesota Department of Transportation (MnDOT) is working to upgrade US Highway 52 from Interstate 90 at Rochester to the I-494 loop around the Twin Cities to freeway status in the coming years. The state is currently planning new interchanges in Cannon Falls and Pine Island along Highway 52. In addition, leaders from around the region have discussed Highway 52 as a potential corridor for development of high speed rail connecting the Twin Cities with Chicago through Rochester and LaCrosse, Wisconsin (along Interstate 90). Given Highway 52's north-south alignment located about 15 miles due east of Northfield, competitive industrial and business park developments along this corridor will affect the viability of new business park ventures in Northfield.

Figure 14: The Secondary Competitive Area



Source: ESRI, 2010

Elk Run (Pine Island, MN)

Tower Investments, in partnership with the San Francisco-based private equity and venture capital firm Burrill and Company, is developing the 2,325 acre Elk Run development on the outskirts of Pine Island, located approximately 18 miles north of downtown Rochester and 60 miles south of St Paul. The community will feature a wellness center, office, warehouse, retail, and institutional uses, and a range of traditional neighborhood types located adjacent to US Highway 52, the major north-south link in southeast Minnesota, connecting Rochester and the Mayo Clinic with the University of Minnesota and the Twin Cities. Elk Run will feature a 200-acre business park dedicated to bioscience businesses. The \$1 billion project is targeting tenants in the medical devices, diagnostics, pharma, animal health, renewable materials, and bioinformatics fields and will serve companies progressing through early stage development of new products, clinical development, commercial manufacturing, and warehouse and distribution functions. Tower Investments has provided financial support for water and sewer infrastructure extensions to the property from Pine Island, the Minnesota Department of Transportation (MnDOT) is planning a \$14.5 million new interchange serving Elk Run from US Highway 52, and the Mayo Clinic has pledged its support for the project. The project's backers and a range of local politicians promote Elk Run as a key driver of the bioscience industry in southeast Minnesota and tout the connections from the project to research centers in both the Twin Cities and Rochester.

Figure 15: Elk Run Master Plan



Source: Elk Run website (www.elkrun.info)

UMore Park (Rosemount, MN)

The University of Minnesota is in the process of preparing a nearly 5,000 acre tract on the UMORE property between Rosemount and Highway 52 into eventual development into a master planned community of 25,000 to 30,000 residents over the next several decades. The concept master plan for UMore Park, completed in 2008, calls for the creation of a series of office parks, an Eco-Industrial Park along Highway 52, and other employment centers throughout the new community. While eventual development of UMore Park may not occur within the next few years, Northfield officials should keep

Land Values and Rental Rates

An analysis of the current asking prices for industrial land and for industrial buildings (vacant, and occupied) indicates that values vary markedly between semi-rural Faribault and the core of the Twin Cities market, in Burnsville and Shakopee. While the asking prices and valuations of properties differ on a case-by-case basis, current market data provide a good overview of the range of values across the area to the south of the Twin Cities, including Northfield.

Land Values

Current land values (in terms of asking prices) vary widely across the study area. In the Faribault area, industrial land is currently valued from \$6,000 to \$10,000 per acre for unimproved parcels to just over \$100,000 for parcels adjacent to the I-35 corridor that feature a host of incentives, including Job Z, 429 financing, and Tax Increment Financing. Similarly, the Randolph area, on the periphery of the Twin Cities market, to the east of Northfield, includes properties valued at \$25,000 per acre for unimproved ground to \$87,000 per acre for parcels in the Great Western Industrial Park. Elko New Market, a small town just to the west of I-35 in Scott County, but located about 10 miles to the west-northwest of Northfield, includes properties valued at upward of \$100,000 per acre. A raw piece of ground at the northwest corner of I-35 and Exit 66 (Highway 19, to the west of Northfield) is currently offered for \$26,000 per acre.

Farther to the north, within the Metropolitan Council area, improved land parcels with acreage in the Airlake Business Park in Lakeville, near County Road 70 and I-35, are currently listed from \$217,000 to \$271,000 per acre. In Burnsville, improved industrial lots with utilities and direct access to interstates including I-35 are offered on a build-to-suit basis at around \$300,000 per acre.

Local brokers indicate that asking prices for industrial land in the region have fallen roughly 30 percent from their peak in 2007 due to the significant negative absorption of industrial space in the regional market. In terms of financial feasibility, most industrial lands are worth next to nothing to particular developers at the current time, given that almost no demand exists for new industrial development in the region at this time. Brokers also indicate that cap rates for industrial prices currently are near historical averages for the region, following a period of lower cap rates during the speculative real estate bubble of the last several years.

Industrial Buildings For Sale and Lease

The asking prices for industrial buildings vary even more widely than those for industrial land, given the wide variety of buildings in terms of age, condition, location, and specific amenities. An analysis of the current listings for industrial properties does indicate that in general terms; however, the asking prices for buildings are higher for Shakopee, Savage, Burnsville, and other locations closer to the heart of the metro area versus outlying exurban communities such as Faribault and Northfield. In the Faribault area, industrial buildings are currently for sale with prices ranging from \$32 to \$54 per square foot. In exurban Hastings, prices generally range from \$34 to \$74 per square foot, and one of the few for-sale listings in Northfield advertises an industrial building for \$64 per square foot. Values in the Lakeville area vary widely, from \$30 per foot for a building constructed in 1987 to \$127 per square foot for new construction (completed in 2008). In the Savage area, along the Highway 169 corridor, industrial

buildings are currently listed from \$100 to \$131 per square foot, and in the Burnsville area near I-35 prices range from \$70 per square foot for vacant properties to \$130 per square foot for a building completed in 1997 and partially occupied today.

Lease rates for industrial buildings across the region are more consistent, with triple net lease rates for office space ranging from \$8 to \$10 per square foot and for warehouse or manufacturing space ranging from \$4 to \$6 per square foot. While rates for common area maintenance (CAM) vary depending on specific amenities, the age and condition of buildings, and other factors, rental rates appear more consistent across the entire region as compared to the for-sale offering prices.

In addition, while asking rates for all industrial properties in the region have averaged slightly over \$4 per square foot, the actual rental rates underlying recent deals have been lower and have included a wide range of incentives from landlords. Rental rates should remain suppressed while the metropolitan market slowly absorbs the glut of unused industrial space in the local market. In the metropolitan area, brokers interviewed in November 2009 were saying that real rental rates were being reduced by 10 to 15 percent and that incentives were being given. However, it seems that the Minneapolis-Saint Paul market, at least, is not suffering the 20 to 30 percent decreases seen in some other markets.

Significance for the Project

- Brokers indicate that current market rents for industrial properties are well below rents supporting the replacement cost of particular buildings (at today's yields). This is an unsustainable trend for the industrial sector. New development of industrial properties in the region will not resume until construction costs decline or rental rates for industrial properties increase.

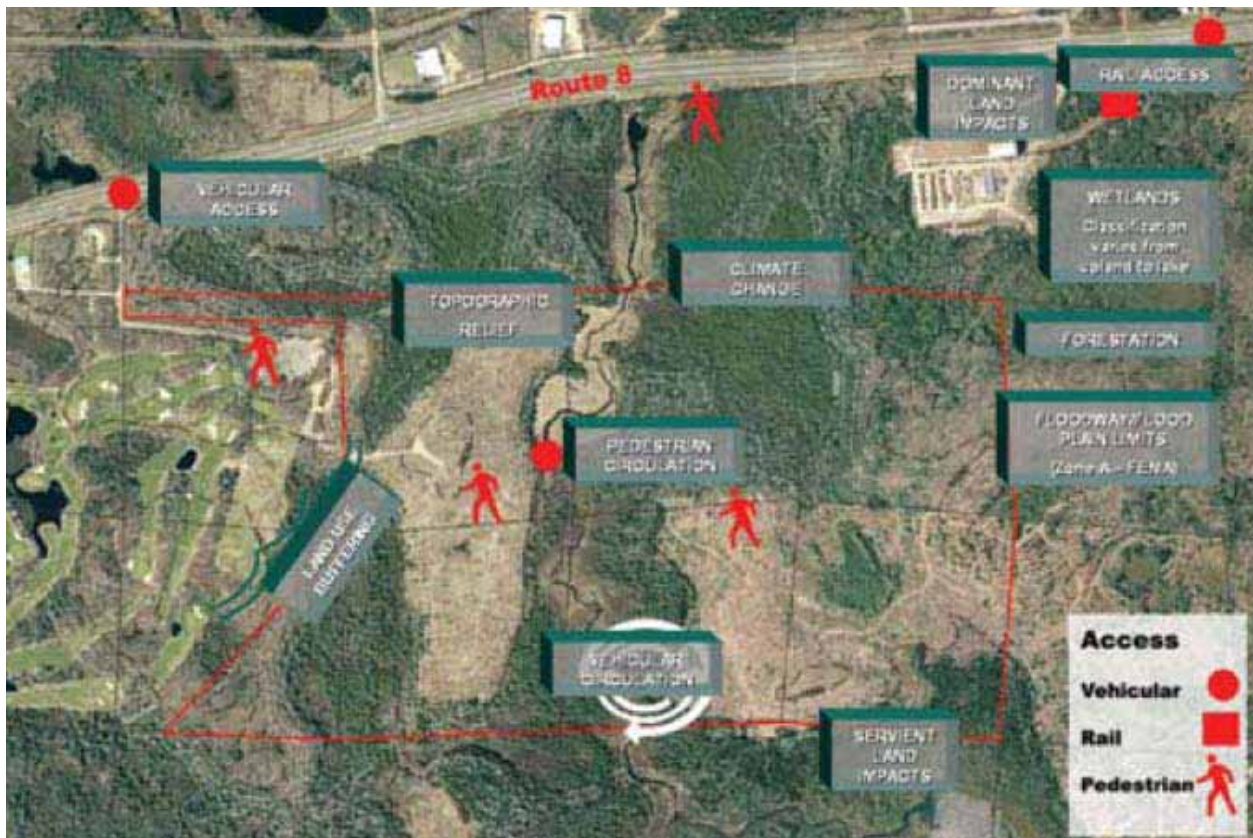
Comparable Projects Analysis

The following illustrates some comparable industrial or business park developments in the U.S. that have explored new development possibilities, including a mix of retail and other non-industrial uses, the addition of amenities, and the integration of sustainable environmental initiatives or “eco-industrial park” features. The Northfield design team can draw from these comparable projects in creating potential development concepts for the two business park sites in the community.

Heal Creek Business Park: Rhinelander, Wisconsin

This community in northern Wisconsin has completed plans for a 260 acre sustainable business park. Key features include over 127 acres of wetlands, walking trails, and trout streams within the business park. One of the stated goals of the business park is to stem the "brain drain" and offer the youngest and brightest an opportunity to live and work in their hometown. Engineers from Foth Infrastructure, the designer of the park, have divided the project into geographic nodes. Tentatively, light industrial has been proposed for the west side, high density residential living space in the center, and a tech park / commons area to the east side. The targeted completion date is 2011 but is dependent on obtaining funding for infrastructure and related improvements.

Figure 17: Illustrative master plan of Heal Creek Business Park



Source:

GloryBee Foods Business Park: Eugene, Oregon

As part of its efforts to locate a site for its own operations, natural foods distributor GloryBee Foods is developing its own small (60 acre) sustainable business park, of which GloryBee will occupy 15 acres. The company is targeting tenants with similar values and outlooks concerning sustainable development. GloryBee has set goals for energy efficiency, with features such as maximum natural lighting, operable windows for ventilation, solar panels to generate electricity and to heat water, and a system to use waste heat from coolers in the cold storage area to heat water. The company had set tentative goals for tenants in the park, including ones calling for the production of 35 percent of electricity from renewable sources, and surpassing city code requirements for energy and water efficiency by at least 20 percent. The overall goal is to produce a distinctive industrial development that reflects the company's values and ideals of supporting local food production and reducing environmental impact, and helps other businesses achieve the same. GloryBee was working with a local design firm to prepare the park's covenants, conditions, and restrictions. The company had paid about \$1.8 million for the 60 acre parcel and had plans to spend \$1.5 million to design the park and pay for its roads and other infrastructure.

Mountain Ranch Business Park: Fayetteville, Arkansas

This business park represents the third phase of the 460-acre mixed-use Mountain Ranch development adjacent to I-540 in the Fayetteville area. Northwest Arkansas has embraced sustainability and sustainable developments as a result of initiatives by Walmart (headquartered in nearby Bentonville, AR) to promote sustainability in its supply chain and in its own internal operations. Drawing from Walmart's initiatives and sustainability programs at the University of Arkansas in Fayetteville, the Northwest Arkansas area is billing itself as a "Green Valley".

The Mountain Ranch Business Park will retain much of its natural surroundings, minimize site disruption and work to attract companies that would like to construct green buildings or use the LEED rating system. Other features within the development include low-impact street lighting to reduce light pollution, the use of recycled pavement in driveways, and the use of locally-sourced materials. The park plans to use green waste to provide for chipping to protect vegetated areas. The development also plans to design landscaping to minimize water usage and reduce impacts on local stormwater facilities and streams.

Horizons Business Park: Riverside, Missouri

The community of Riverside, MO, a small suburb of Kansas City along the Missouri River just to the north of downtown, incorporated a large industrial park of over 600 acres, constituting a large share of its overall acreage, in its recent renewal of its comprehensive plan. The 600 acre Horizons property includes flat Missouri River bottom land (farm land) adjacent to Interstate 635 and located less than 10 miles from Downtown Kansas City. The "full industrial park plan" for the community calls for the industrial park and industrial uses to comprise the vast majority of the Horizons property. The plan, crafted by BNIM, does provide for open space connections throughout the industrial park and the inclusion of a small commercial area to provide services for customers and employees of the industrial park. Importantly, the industrial park master plan preserves levees and open space wetland areas directly adjacent to the Missouri River.

Figure 18: Horizons Business Park Plan



Under the full industrial buildout scenario, Horizons can hold over 7,000,000 sq.ft. of new industrial development.

Source:

Los Morros Business Park, Albuquerque, NM

The 500-acre Los Morros Business Park trumpets its location (and associated quality of life advantages) adjacent to the Huning Ranch master planned community of 2,000 acres near Albuquerque. It promotes the connectivity of trails and ponds on the business park site to the nearby community. The image below, however, shows that the business park is fairly conventional in its uses. It provides a representation of a fairly conventional suburban business park layout found throughout the United States. Tract sizes range from 2 to 50 acres, and developers designed Los Moros to provide covenants that protect property owners and well-planned product segmentation. The business park is located adjacent to I-25, the main north-south arterial in the state.

Figure 19: Los Morros Business Park Plan



Source:

Cape Charles Sustainable Technologies Park, Virginia

Cape Charles, an area of high unemployment and a faltering economy, created an eco-industrial development plan in 1994 in order to re-energize the local economy and preserve its rich natural and cultural assets. The Park initially consisted of a multi-tenant building design with the flexibility to accommodate a range of light manufacturing firms. A public-private management partnership provides a set of codes, covenants, and restrictions to encourage and reward both environmentally sound practices and involvement with the local communities. The pilot building for the park included green design features, such as solar panels, maximum energy efficiency and skylights for natural daylighting of workspaces. The first building was completed in 1999 and leased to Energy Recovery, a manufacturing, research, and development firm. The Park’s plan called for the preservation of the 30-acre Coastal Dune Natural Area Preserve and 60 additional acres of natural areas. Walkways and trails, including an overlook on to Chesapeake Bay, were included in the park.

In the first few years after its opening in 1999, the Cape Charles park attracted over \$8 million in local investments and recruited two additional companies – Hauge Technologies, a manufacturer of pressure exchangers, and Delisherries, a gourmet baking mixes company. The Joint Industrial Development Authority of Northampton County operated the park as a non-profit entity. Unfortunately, the park failed to spur tenant interest beyond the first building and is now defunct and was for sale for

conventional uses by 2008. The county does not anticipate being able to attract a buyer prepared to operate the park according to the original eco-friendly values. Potential reasons for the downfall of the park plan include the region's underlying economy and distance from major markets.

Figure 20: Photo of the initial building constructed at Cape Charles



Source:

Newberg, Oregon

The exurban community of Newberg (population of approximately 18,000 residents and home to George Fox University), located about 20 miles southwest of Portland, recently completed a master planning process for an industrial park area on the edge of the community. As outlined in the two illustratives below, the community carefully considered planning for open space connections, wetlands, and other environmental assets in creating potential plans for the park. The community also provided a range of different parcel sizes to accommodate various users, including both large and small scale employers.

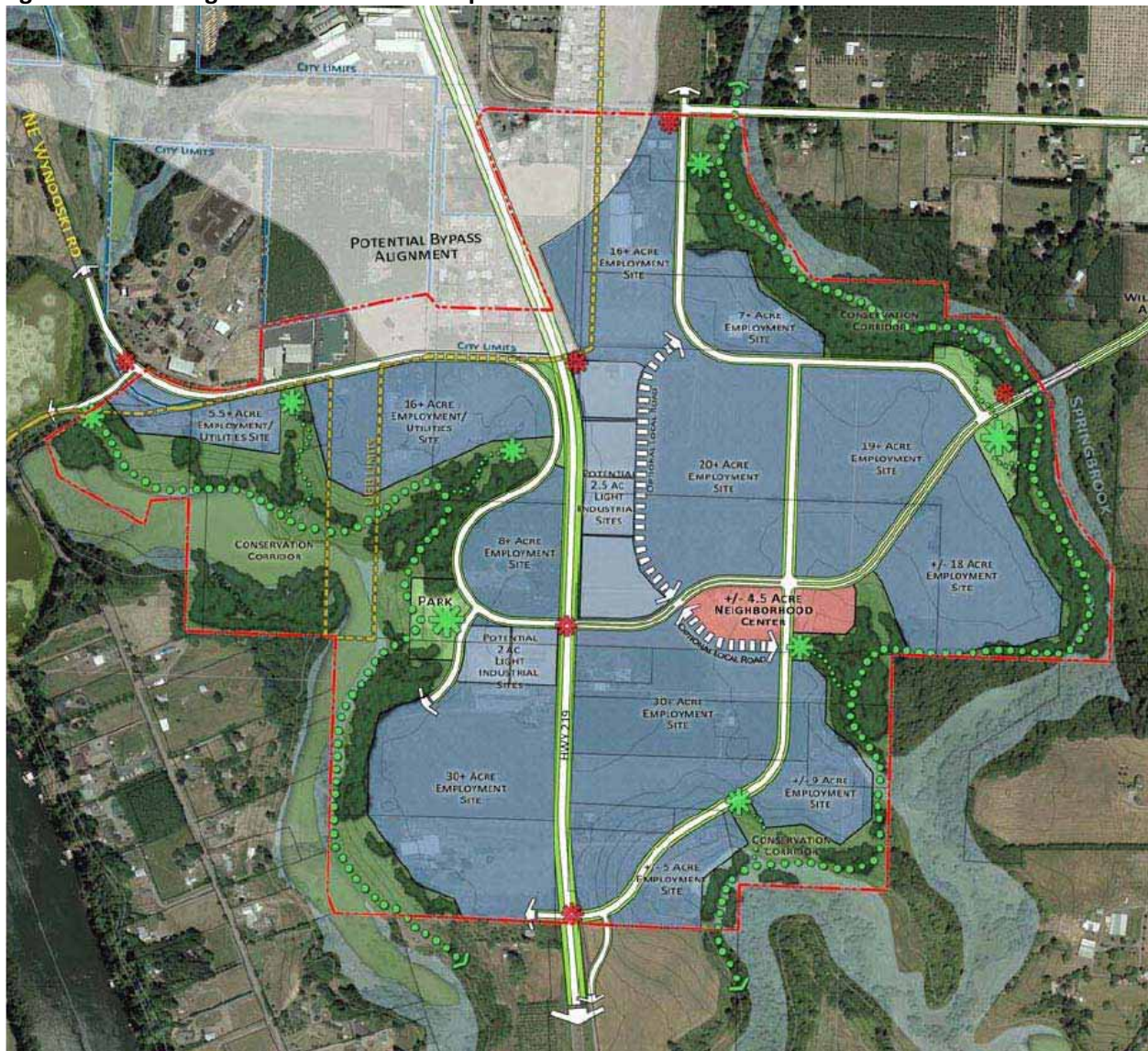
Figure 21: Newberg Industrial Park: Concept A



Source:

A second alternative, below, provides for a neighborhood amenity center in the middle of the industrial park to serve both employers and employees.

Figure 22: Newberg Industrial Park: Concept B



Source:

Significance to Northfield

While prospective “Eco-Industrial Parks” in the United States have struggled to gain a foothold to a certain extent, a number of examples demonstrate how business and industrial parks can successfully integrate other uses and environmental planning in order to enhance quality of life and marketability while accommodating necessary industrial uses. Northfield should plan for the integration of retail uses, open space, offices, and perhaps even residential uses in order to enhance the marketability of the two potential business parks. Doing so will also help to satisfy the goals and objectives of many citizens to create a more sustainable community over the long term.

Demand and Absorption Analysis

Trends

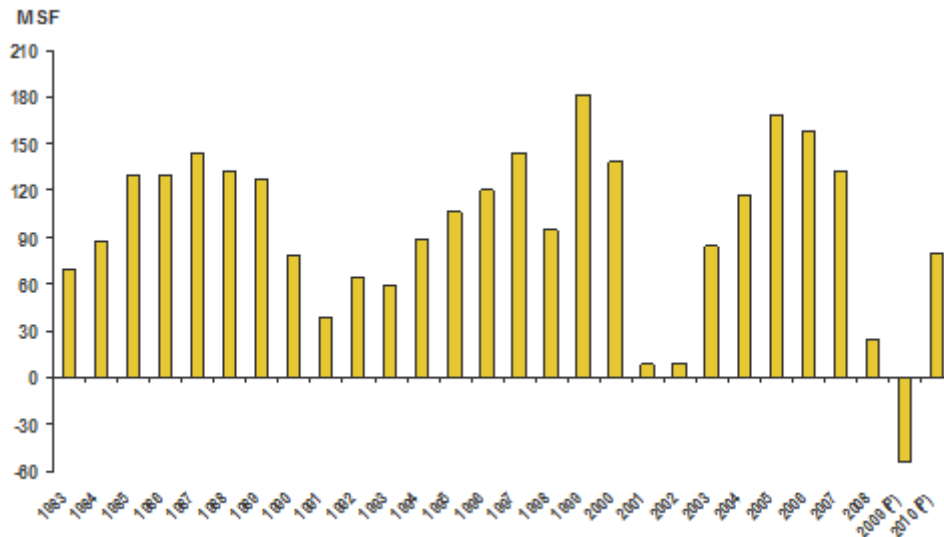
Over the last 25 years in the U.S., there has been a strong relationship between Gross Domestic Product (GDP) and industrial development, as measured by occupied warehouse space (see Figure 1). As the economy of the country has grown, industrial output has grown and the movement of goods and services has grown – movement that is tracked through industrial warehouses. Industrial development tracks not only the upturns in the GDP, but also closely follows the declines. Warehouse space is easy to build – a new facility can be ready in six months – and easy to shut down. Manufacturing facilities gauge their output monthly and just-in-time production is becoming the norm in most sectors.

Figure 23: Correlation Between U.S. GDP and Warehouse Space Occupancy



The absorption of industrial real estate in the US has typically been strong. Again, construction time for warehouse and distribution facilities is short, so the market responds to demand and tends to not get over-built the way other sectors do. Over the last 25 years there has never been a full year of negative absorption in the national market. That changed in 2009, and, although the final numbers are not in, they will break the trend.

Figure 24: Net Industrial Absorption for the Top 30 U.S. Markets, 1983 – 2008



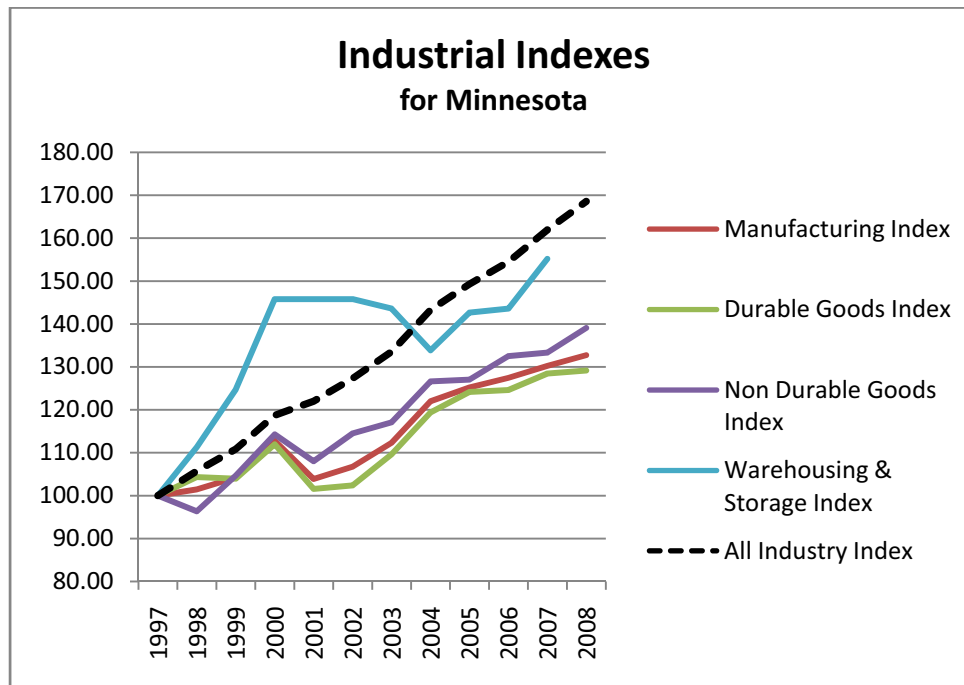
Source: Prologis, 2009

Context

In building a projection for industrial absorption for Northfield, we must understand that particular area in the context of a greater whole. Northfield has captured a small portion of the market activity in the Minneapolis-St. Paul (MSP) metro area in the past, but it could capture more in the future if it had a competitive advantage and strong marketing. Businesses have relocated to Northfield from across the metro area, and it is a player in the five state distribution patterns of the upper Midwest. In order to understand the industrial development patterns that influence the market in Northfield, we looked at a ten year period from 1997 to 2008 – the data available from the Bureau of Economic Analysis at the US Department of Commerce (BEA) – and tracked GDP and industrial indexes for the state. The BEA also tracks data for metropolitan regions, but only GDP data from 2001 to 2008 was available for the Minneapolis-St. Paul region. For the GDP we tracked gross dollars and the real GDP index. For industrial activity, we looked at total industries, manufacturing, durable goods, non-durable goods, and transportation. The data does not include the downturn from the current recession, since the 2009 data has not been made available yet. In October, the Minnesota Office of Management and Budget reported that their economic consultants, IHS-Global Insight, estimated the real GDP decline for the state in 2009 to be 2.5 percent.

The data from the last decade for the state shows fluctuations in the different industrial sectors of Manufacturing, Durable Goods and Non-Durable Goods. Warehousing and Storage seems to have spiked in the late 1990s and then held relatively constant, until returning to track with the other sectors in 2003-2004. Over all, the All Industry Index had a steady increase. (see Figure 25).

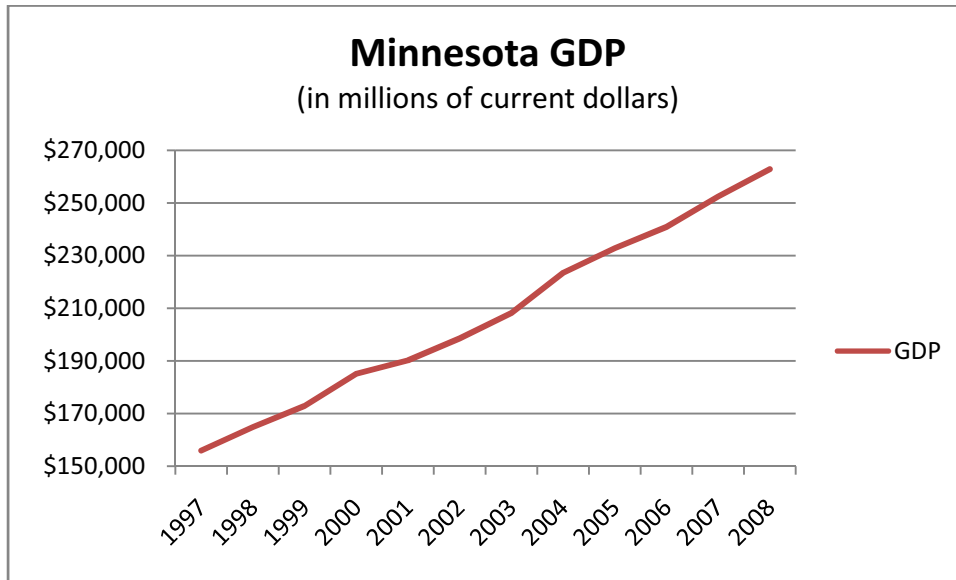
Figure 25: Ten Year Trend for Indexes of Industrial Activity in Minnesota



Source: Bureau of Economic Analysis, November 2009

The Gross Domestic Product of Minnesota has also increased steadily over the last decade (see Figure 26). As noted above, the estimated GDP for 2009 will show a decrease of 2.5 percent, but the Office of Management and Budget reported in October that their economic consultants (IHS-Global Insight) forecasts a return to growth in 2010. Global Insight’s projection of a 2.1 percent increase in 2010 is a bit more conservative than the Blue Chip Consensus forecast also tracked by the State – the Blue Chip forecast calls for 2.5 percent growth for the same period. The Global Insight forecast predicts that growth will reach 2.9 percent in 2011. This is a full point below the average growth rate for the past decade (see Figure 27). During that timeframe the annual rate of change ranged from 2.8 percent to 7.3 percent and averaged 4.9 percent. The Office of Management and Budget cites national forecasts that predict unemployment will not reach pre-recession levels until 2012 as a factor in the state’s slower recovery.

Figure 26: Ten Year Trend for Gross Domestic Product in Minnesota



Source: Bureau of Economic Analysis, November 2009

Figure 27: Ten Year Trend for Gross Domestic Product in Minnesota, with Percentage of Annual Change

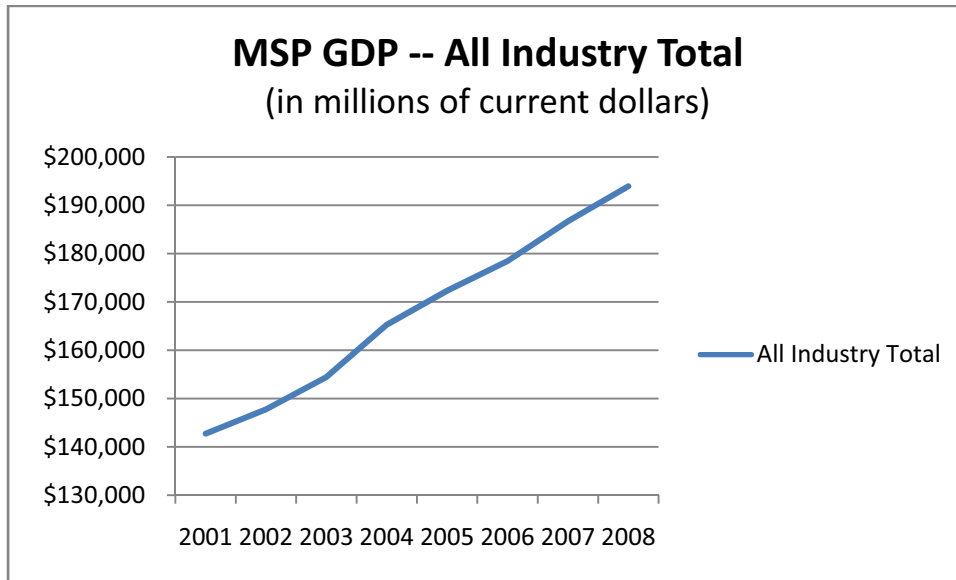
Gross Domestic Product of Minnesota
(in millions of current dollars)

Period	GDP	Annual Change
1997	\$ 155,938	
1998	\$ 164,897	5.7%
1999	\$ 172,874	4.8%
2000	\$ 185,093	7.1%
2001	\$ 190,231	2.8%
2002	\$ 198,558	4.4%
2003	\$ 208,179	4.8%
2004	\$ 223,454	7.3%
2005	\$ 232,802	4.2%
2006	\$ 240,891	3.5%
2007	\$ 252,472	4.8%
2008	\$ 262,847	4.1%
<i>Average</i>		4.9%

Source: Bureau of Economic Analysis, November 2009

The figures for the Minneapolis-St. Paul area are similar to the state data, with an average annual growth of 4.5 percent over the last eight years, a high of 7.0 percent and a low of 3.5 percent (see Figure 29). Again, these figures from the Commerce department do not include numbers for 2009, because the data is not yet available, and they only made available data from the last eight years. Still, these historical figures are useful for establishing a trend for the market region once the recovery is in place.

Figure 28: Eight Year Trend for Gross Domestic Product in Minneapolis-St. Paul



Source: Bureau of Economic Analysis, November 2009

Figure 29: Eight Year Trend for Gross Domestic Product in Minneapolis-St. Paul, with Percentage of Annual Change

Period	MSP GDP All industry total	Annual Change
2001	\$ 142,733	
2002	\$ 147,753	3.5%
2003	\$ 154,475	4.5%
2004	\$ 165,293	7.0%
2005	\$ 172,356	4.3%
2006	\$ 178,479	3.6%

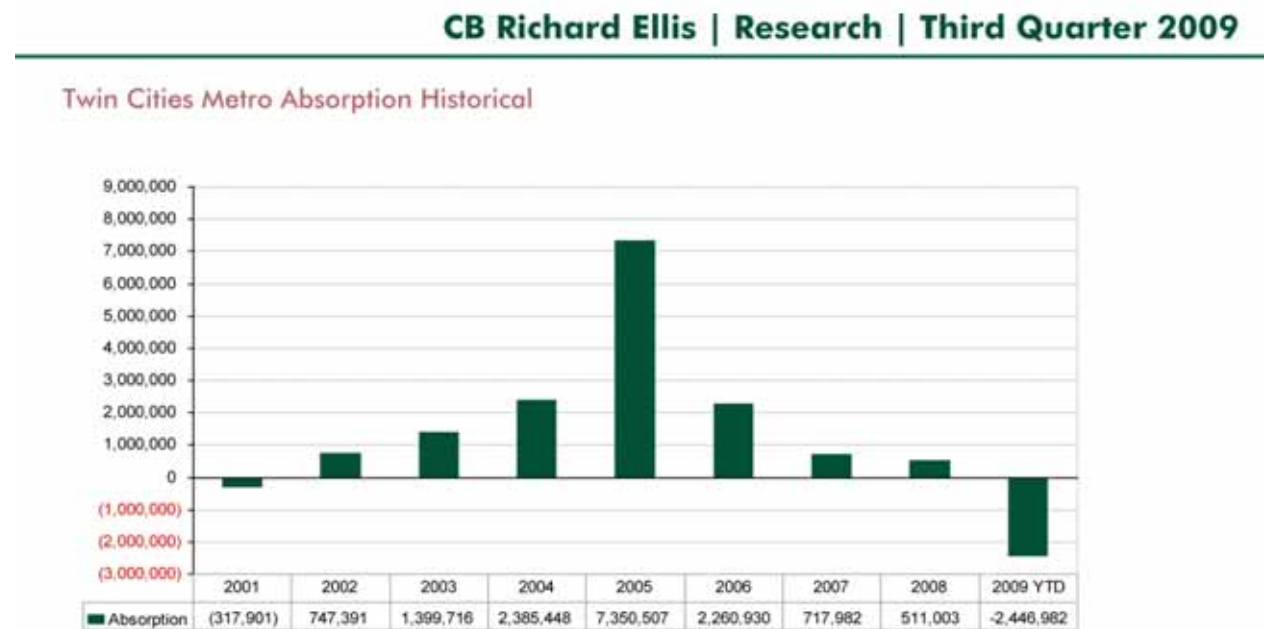
	\$	
2007	186,738	4.6%
	\$	
2008	193,947	3.9%
	<hr/>	
	Average	4.5%

Source: Bureau of Economic Analysis, November 2009

Industrial Development in Minneapolis-St. Paul – Historical

The next step in building a projection of absorption is to tie industrial real estate development to the GDP. The current volume of built industrial real estate in the MSP metro area is 328,259,965 square feet (according to Third Quarter 2009 market reports issued by CBRE). Between 2001 and 2008 the MSP market averaged 1.88 million square feet of industrial development absorbed per year, with annual rates ranging from negative 318,000 square feet to 7.35 million square feet (see Figure 8). This year will have a very significant negative absorption, but that is due to the extreme environment created by the recession. As the data collected by Prologis shows, negative absorption in the industrial real estate market is rare and short-lived (see Figure 2). Once the current vacancies have been absorbed, which will take 18 to 24 months according to local brokers; we should be able to expect a return to an average absorption similar to the last decade. That assumption is based on the strong, consistent pattern in GDP and industrial indexes demonstrated over the past ten years. The fundamentals of the market are still strong.

Figure 30: Past Eight Years of Industrial Real Estate Absorption in Minneapolis-St. Paul



Source: CBRE, November 2009

Industrial Development in Northfield – Projection

The current amount of occupied industrial property in Northfield is 2,618,565 square feet in 110 buildings (see Figure 9). That represents a little less than one percent of the industrial development in the MSP area.

Figure 31: Industrial Properties in Northfield

Industrial Properties (from stormwater utility classification)

	Ind.Bldgs. (sq. ft.)	Ind. Parcels (acres)	Ind. Parcels (sq. ft.)
Count	110	69	69
Total Area	2,618,565	301.3	13,124,199
Avg. Area	23,805	4.4	190,206

Source: Northfield Economic Development Agency

Assuming the GDP continues to grow at a rate similar to the average of the last decade over the next twenty years – with the expected cyclical declines – and assuming that the creation of new industrial space demand will track the change in GDP as it tends to do in this country, we can predict how much industrial property demand will be created in Northfield. The low point of the range for GDP growth in the MSP market over the last eight years – 3.5 percent – was set as the “level” rate for the next 20 years. Accounting for the fact that local brokers are estimating that 18 to 24 months will pass before new industrial land is developed, the growth for the first two years was kept flat, with just a small allowance for replacement due to functional obsolescence and the construction of build-to-suit projects. Assuming that there will be a cyclical slow down at some point in the next twenty years, a reduction in the growth rate over a three year period was incorporated at approximately the midpoint of the forecast period.

This model predicts an annual absorption of approximately 100,000 square feet, with a total creation of 2.14 million square feet by 2030 (see Figure 10). In April 2008, Dakota County published a market study on commercial and industrial space in their jurisdiction. In comparison, it projected a demand for 2.3 million square feet of industrial space in the city of Lakeville between 2008 and 2030 and 2.175 million square feet of demand in Eagan. This projection, with Northfield absorbing a similar amount of industrial space as Lakeville and Eagan, depends on the availability of land ready to develop and competitive marketing.

Figure 32: Forecast of development of New Industrial Properties in Northfield

Period	Projected Growth	Northfield Industrial Development (SF)	Annual Absorption (SF)
2009		2,618,565	
2010	0.5%	2,631,658	13,093
2011	0.5%	2,644,816	13,158
2012	2.5%	2,710,936	66,120
2013	2.8%	2,786,843	75,906
2014	3.0%	2,870,448	83,605
2015	3.5%	2,970,914	100,466
2016	3.5%	3,074,896	103,982
2017	3.5%	3,182,517	107,621
2018	3.5%	3,293,905	111,388
2019	3.0%	3,392,722	98,817
2020	1.0%	3,426,649	33,927
2021	2.5%	3,512,316	85,666
2022	3.0%	3,617,685	105,369
2023	3.5%	3,744,304	126,619
2024	3.5%	3,875,355	131,051
2025	3.5%	4,010,992	135,637
2026	3.5%	4,151,377	140,385
2027	3.5%	4,296,675	145,298
2028	3.5%	4,447,059	150,384
2029	3.5%	4,602,706	155,647

2030	3.5%	<u>4,763,801</u>	<u>161,095</u>
		<i>Total</i>	<i>2,145,236 SF</i>
		<i>Average</i>	<i>102,154 SF/YR</i>

Significance to Northfield

- Despite the recent severe recession and contraction in the Twin Cities industrial market, based upon historical trends the region should return to a fairly consistent pattern of growth in coming years. Based upon average historical patterns of industrial growth in the regional market, and Northfield's historical share of the regional market, the two business park sites in the community should absorb over 2 million square feet of industrial or business park space over the next twenty years.

Recommendations

PROGRAM

Industrial

The program for industrial land is based on an analysis of the proportions of each property type in the Minneapolis-St. Paul metropolitan region, adjusted according to the market conditions we have observed in the I-35 corridor from Eagan to Owatonna. In particular, the amount of Bulk Warehouse will be less in Northfield, due to its distance from the freeway. Office Warehouse accounts for over 40 percent of the market in the metro area, but in Northfield we feel that there will be less demand for this, and it will be mostly in the subcategory of Flex and R&D. The greatest portion of the market will be in Manufacturing, we believe, but that will cover a wide range of facility sizes. The building sizes will tend to be small, based on an inventory of the existing manufacturing facilities in Dakota County published by the county in April, 2008. Still, the design team should plan for the possibility of some large facilities, on the order of 250,000 SF. The remaining development is categorized as "Other," which includes truck terminals (like McLean) and specialty manufacturing and other industrial uses.

Figure 33: Industrial Development Program

Type	Percentage (by SF)	Typical Building Size
Bulk Warehouse	15%	50,000 to 150,000 SF
Office Warehouse	15%	50,000 to 150,000 SF
Office Showroom	10%	15,000 to 40,000 SF
Manufacturing	40%	25,000 to 75,000 SF Up to 250,000 SF
Other	20%	10,000 to 25,000 SF

The site requirements of each development type are defined in the "Charrette Kit" prepared by Prologis and provided under separate cover.

Several other development types were discussed with the Steering Committee, including an energy production facility, a community college extension, and a conference facility. The planning recommendations for each are summarized briefly below:

Energy Production Facility

The model that was discussed was the Faribault Energy Park, a recently completed project in the market area. HKGI completed the site design for the project and has direct experience with the site planning

issues involved. The key factors driving site selection for this facility were proximity to a large capacity natural gas line and to electric transmission lines. The facility is located in a 35 acre site, which includes ponds for water used in the energy production and cooling operations. The site was designed in such a way that it is considered an amenity by the community.

Examples

Faribault Energy Park

The Faribault Energy Park is a combined cycle power plant located in Faribault, MN, utilizing natural gas and fuel oil or biofuels to produce enough energy to power 250,000 homes. Avant Energy Services managed the planning and construction of the facility, which is owned by the Minnesota Municipal Power Agency. The site includes a 30-acre wetland park that incorporates the water from the cooling towers. Accessible to the public year-round, the park provides a community resource with fishing ponds, trails, shade structures and a Demonstration Park that teaches visitors about clean energy, wetland habitats and water conservation.

Figure 34: Faribault Energy Park



Source: Hoisington Koegler Group, Inc., 2009

Koda Energy Biomass Plant

The Koda Biomass Plant is located on the property of the Rahr Malting Company plant in Shakopee, MN. A joint venture of Rahr and the Shakopee Mdewakanton Sioux Tribe, the plant was completely privately funded, with a construction cost of approximately \$60 million. The power plant gets about one-third of its fuel from barley dust and other agricultural by products generated by the malting facility. The other

sources of fuel are oat hulls from two local General Mills plants and wood chips from another local manufacturer – all the fuel for the plant comes from within a 60-mile radius. The plant produces an average of 12.5 megawatts with a capacity up to 24.1 megawatts per hour. Approximately one third of the electricity produced by the plant is used by Rahr, and the remainder is purchased by Xcel Energy as part of its commitment to reach 30 percent renewable energy by 2020. The tribe is working with the University of Minnesota to see if they can use native prairie grasses as a fuel stock, helping them to achieve a goal of returning marginally-productive farmland to native vegetation.

Figure 35: Koda Biomass Plant



Source: "Koda Energy LLC Biomass to Energy Project"⁴

Community College

There are many forms that community college-type educational facilities can take, from classes offered on location in the offices of businesses that are seeking training for their staff to stand-alone campuses. The model that probably works best for Northfield is a satellite campus that would include one or two buildings with classrooms and perhaps a media facility. These classrooms can be located in a standard office building (e.g. Penn State Extension School Great Valley Campus is located in a speculative office building built by Liberty Property Trust in their Malvern, Pennsylvania business park), or they can be built as an educational facility (e.g. South Central College and Front Range Community College are provided as examples below). One factor might be the amount of special facilities required for training (e.g. commercial kitchen, laboratory or flight training facility, nursing facility, etc.). The Steering Committee and ownership group have contacts at the local community college, South Central College, that they are investigating to see if an expansion of that institution might be appropriate for this location.

⁴ Retrieved from <http://www.cleanairchoice.org/energy/ShakopeeTribesBiomassPowerProject.pdf> on 12/28/2009

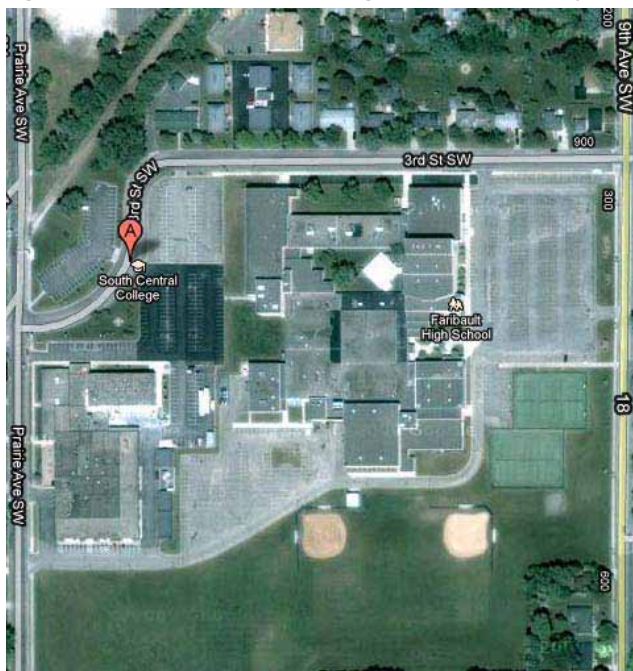
Examples

South Central College

South Central College is part of the Minnesota Community and Technical College system. Founded in 1946 as South Central Technical College, the institution renamed itself South Central College in 2005 and focused on community education more generally. One of its focuses is to be a committed partner to improving the regional economy by helping workers and businesses to be competitive in a market that is increasingly global in scope. The college offers associate degrees in Arts, Science and Applied Science as well as diplomas, certificates and non-credit courses. There are 50 programs offered on the two campuses – one in Faribault and the other in North Mankato – and through on-line programs. The Center for Business and Industry is dedicated to advising for-profit, not-for-profit and governmental agencies on issues related to training and economic development. The Center serves over 1,000 businesses each year and over 15,000 students with credit and non-credit education and training. At the college, there was a full time enrollment of 2,715 students last year and total enrollment of 5,282.

The South Central College campus in Faribault is located on a site immediately adjacent to a high school, centrally located in the community. The North Mankato campus is adjacent to a commercial area in town, convenient for employees seeking training.

Figure 36: South Central College, Faribault Campus



Source: Google Maps

Figure 37: South Central College, North Mankato Campus

Source: Google Maps

Front Range Community College

Front Range Community College is an active, progressive, competitive member of the Colorado Community College system with campuses and facilities from Denver north to Fort Collins, often located in mixed-use centers, lifestyle centers, and business parks. Below are some examples of facilities they operate in or close to business and industrial parks. [NOTE: scale reference in each image]

Boulder County Campus – Longmont, Colorado

- Located in a business park with research, manufacturing and distribution facilities



Source: Google Maps

Community Learning Center – Loveland, Colorado

- Located adjacent to a High School and Agilent Technologies facility



Source: Google Maps

Larimer Campus – Fort Collins, Colorado

- Free standing campus on major “technology road” in Fort Collins (including HP, Intel, Poudre Valley Hospital System, etc.)



Source: Google Maps
Westminster Campus – Westminster, Colorado

- Free standing campus at juncture of four counties and near a major technology route between Denver and Boulder (including Sun Microsystems, Level 3, McDATA, Ball Corp., Century Health, etc.).



Source: Google Maps

Conference Facility

There are many sizes and types of conference facilities – including some that are co-located with community college facilities (example: Colorado Mountain College’s conference campuses – see attached examples). Below is a summary of three of the more relevant types of conference facilities for suburban locations (not including resort destinations).

Figure 38: Conference Facility Types

Type	Typical Uses	Facilities
Executive	Mid- and upper-level training and management development,	225 to 300 mid-size to large guest rooms; several mid-size conference

	management planning, sales meetings	rooms, many break-out rooms, some recreation facilities and food service; total building size: 215,000 to 340,000 SF
Corporate	Technical and sales training for mid- and low-level employees; management development meetings; corporate events	125 to 400 rooms of varying sizes; many training/conference rooms; specialized rooms (according to industry type served); auditorium; some recreational facilities; limited food service; for non-residential size ranges from 10,000 to 40,000 SF, for residential minimum of 200,000 SF, can be up to 400,000 SF for management development center
University/Academic	Executive education for middle managers, continuing education programs and specialized training, academic meetings and symposia	50 to 150 small to mid-size rooms; moderate number of conference rooms; amphitheater; auditorium; limited recreation facilities and food service; total building size can range from 75,000 to 160,000 SF

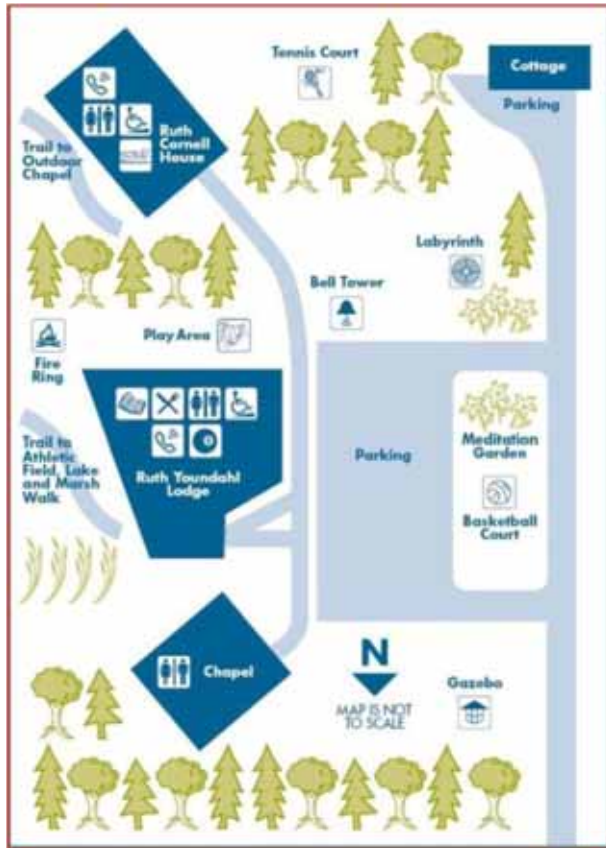
Source: Conference Center Planning and Design, by Restaurant/Hotel Design International, 1991

Examples

Mount Olivet Conference and Retreat Center

The Mount Olivet Center is located in Farmington, the next town to the north of Northfield, in a beautiful setting that is less than an hour from the Twin Cities by car. The facility is part of a 150-acre site with woods, prairie and gardens surrounded by agricultural land, and it over-looks Chub Lake. The Center was founded by the Mount Olivet Lutheran Church, but is open to users of any faith. There are six rooms available for meetings; the largest can hold up to 80 people. Altogether, the Center can serve groups as large as 180 people for meetings. The dining room seats 120 people and provides limited food service. There are sleeping accommodations for 49 people including some private rooms in a guest house and four dormitories.

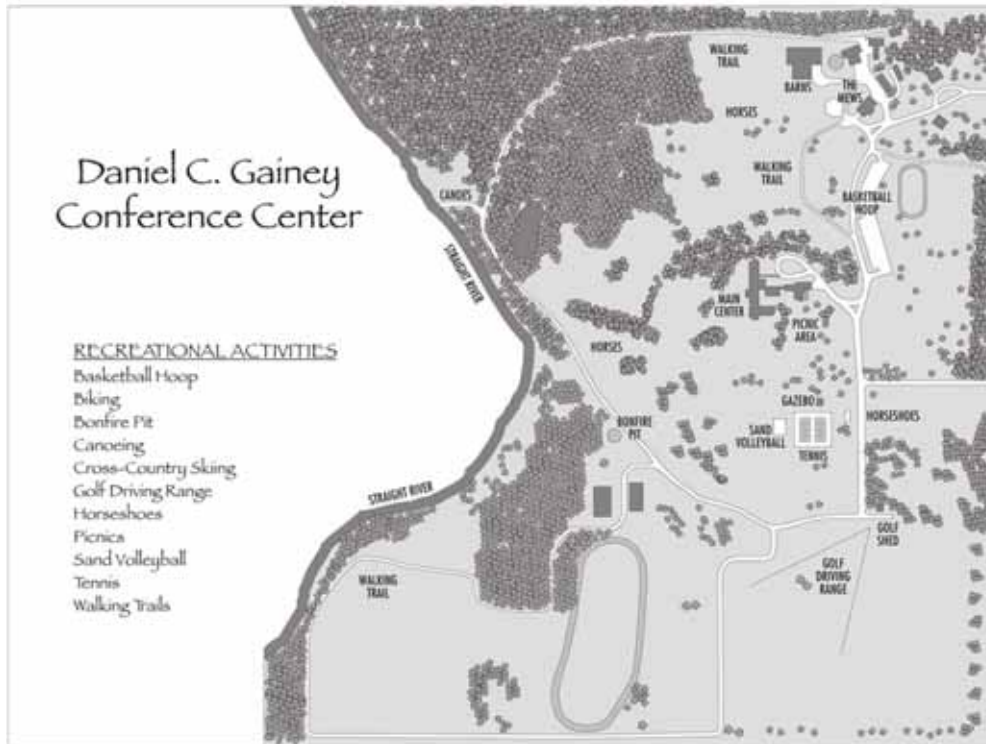
Figure 39: Plan for Mount Olivet Conference Center and Resort



Source: Mount Olivet Conference Center and Retreat (www.mtolivetretreat.org)

Gainey Conference Center

The Gainey Conference Center is located on the campus of the University of St. Thomas in Owatonna. The Center has a large meeting room that can hold up to 70 people and three small break-out rooms. There are 35 private guest rooms at the facility and a dining room with a table that seats 14. The Center offers three full meals a day and can cater any type of meeting. The history Gainey home is part of the Center and guests have access to a fitness center, golf and trails on 182 acres. A challenge course is available for team building as are equine assisted learning programs. Outdoor gathering spaces, including a fire pit, extend the sense of a resort retreat within driving range of Minneapolis-Saint Paul.

Figure 40: Plan for Gainey Conference Center

Source: University of St. Thomas (www.stthomas.edu/gainey/conferences/default.html)

Colorado Mountain College

Colorado Mountain College has three campuses that serve dual purposes – community college classrooms and conference facility for hire. [NOTE: scale reference in each image]

Timberline Campus – Leadville, Colorado

- Facility can house and feed up to 140 people
- 64 rooms with private baths (128 beds)
- 8 class/meeting rooms for 25 to 50 people, wired for online teaching
- Science, natural resource and computer labs
- Cafeteria and lounge
- Access to historic Hayden Ranch



Source: Google Maps

Alpine Campus – Steamboat Springs, Colorado

- Facility can sleep up to 220 people
- 19 classroom rooms, largest holds 50 people
- Meeting room for 150 people
- Computer lab and library
- Dining hall
- Gymnasium



Source: Google Maps

Spring Valley Conference Center – Glenwood Springs, Colorado

- 600 acre site near I-70
- Facility can house 200 people in 110 rooms with private baths
- 10 classrooms with capacities up to 40 people, many are “smart rooms
- Meeting rooms with capacity from 75 to 100 people
- Large cafeteria

- Climbing wall and challenge course



Source: Google Maps

Timing

As was noted in the section on land value and rents, the market is not looking for new Greenfield development right now. At the end of 2009, the projections are that it will be 18 months to two years before demand will justify new development. Some build-to-suit projects will continue in the interim, and there is a 1 to 2 percent loss of building inventory due to obsolescence each year, but most activity will be focused on absorbing the space left vacant during the recession. The positive indicators as we enter 2010 are that businesses have very low inventory and are expected to be ramping up manufacturing and distributors with new orders. Market rents are well below replacement cost rents at today's yields, which is an unsustainable trend long term. Either construction costs must decline or rents must rise for new development to resume. Facing the question of why plan for industrial development at a time where there are millions of square feet vacant in the larger metropolitan market, the response is, now is the time to plan. The conclusions of the June 2006 Comprehensive Economic Development Plan are still viable. Northfield needs to reserve a portion of its land for commercial development in order to ensure that there will be industrial sector jobs and commercial tax rates paid.

Differentiators

In conclusion, we would like to offer a consolidation of the findings of this report as a list of differentiators that Northfield can use to attract new business to the City:

- Need to differentiate from competitive market area
- More than raw land with potential for infrastructure
- Master plan for amenitized park with good infrastructure and access
- Strong design guidelines

- Seek opportunities to integrate uses
- Potential for co-generated power, heating and cooling
- Look for synergies with existing companies (Malt-O-Meal, Cardinal Glass, hospital)
- Look for businesses interested in co-branding with city/colleges
- Aggressive use of state programs

Conclusion

While the Twin Cities and regional industrial real estate markets will remain in recovery mode for the next one and a half to two years, based upon the historical strengths of the region and historical trends tied to regional GDP and other macroeconomic factors, demand for industrial and business park space will continue to grow over the next two decades. The demand analysis indicates that Northfield can expect to absorb over two million square feet of industrial or business park space over the next two decades, a rate of absorption consistent with that of Lakeville, its nearest neighbor in the metropolitan market. In addition, Northfield can gain a competitive edge in marketing to companies looking to enhance their environmental sustainability initiatives by creating development plans for the two business park sites that incorporate sustainable design or eco-industrial-park planning principles. The key for Northfield is to lay the groundwork and prepare development parcels now so that the community is prepared to absorb its share of the industrial market over the next two decades as growth resumes. Communities such as Lakeville and Eagan that have exhibited tremendous business growth over the last few decades prepared for growth early on, by designating territories for prospective industrial development, and then realized tremendous returns when growth from the Twin Cities market eventually reached their communities. While Northfield will work to retain the quality of life attributes that make the community such a good place to live, it should prepare now to attract industrial and business park users in order to ensure that its residents have sufficient job opportunities and to maintain the fiscal stability of the town going forward.