



## *The Millennial* *Plaza*

### *THE TEAM*

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## *Approach*

Property Analysis



S.W.O.T.



Market Analysis/Highest and Best Use



Financial Analysis

## PROPERTY ANALYSIS

- Subject Site: 13.09 acres (570,200 square feet)
- Located 2 blocks North of Mall of America
- Southwest of Minneapolis-St.Paul airport
- Bloomington South Loop District
- Easy access to Minneapolis and St. Paul due to Hiawatha Light Rail Line and I-494

# Aerial View of Site



# South Loop District



## Property Analysis: Focus and Goals

- Redevelopment and rebranding focus from suburban to urban
- Increase connectivity and walkability
- Mall of America: Asset to the district
  - Recent: Two new hotels, Class A office space
- Proximity to Airport: Constraints

## MOA Expansion Plans Relative to Gateway



# SWOT ANALYSIS

## Strengths

- Large number of daily shoppers
- Proximity to Mall of America
- High HHI in the area
- Proximity to the Minneapolis-St. Paul International Airport
- Ease of access off 494

## Weaknesses

- Airport height restriction
- Proximity to Mall of America
- Location away from transit line
- Aircraft noise

## Opportunities

- Provide great multi-use development for South Loop area
- Introduce services not available in the area
- Micro-concept hotel
- Future plans of high density residential in the South Loop

## Threats

- Future Mall of America expansions
- Large amounts of retail in the area
- Large amounts of hotel rooms near
- Potential saturation of retail and hotel

## Market Analysis: Industrial

- Vacancy low 6.9 percent from 8.1 percent
- 377,640 square feet absorption
- Brings total 2016 end to 2,632,291 square feet
- Ruling: Industrial not relevant fit to area vision



# Market Analysis: Residential

- High initial expected vacancy rates, then will decline
- Bloomington favors multi-family developments
- Challenge: Heavy airport and freeway noise
- Comparable: IndiGo Apartments

## IndiGo Apartments



## Market Analysis: Office

- Vacancy increase 13.7% to 14.5% in 2016
- Net absorption for Minneapolis was 336,793 square feet in 2016
- Average asking rental rates \$14.02 per square foot
- MOA: 180,000 square feet of Class A

## Opportunities

- Entertainment focused retail
- Micro-concept hotel
- Luxury fitness/spa with medical offices

## Market Analysis: Medical

- Vacancy decreasing 7.4% with increasing absorption of 100,323 square feet
- Minimal medical office competition in South Loop
- Lack of competition could attract big names
- 2016 brought over 445,000 square feet of medical office in Twin Cities, estimated 1 million in planned construction

## Market Analysis: Retail

- Vacancies around 6% for 2016
- Retail to complement, not compete, with MOA
- Entertainment experience, millennial focus
- Motivation: Brookfield Place Plaza
- Upscale shopping, skating rink, international market



# Brookfield Place



## Market Analysis: Hotel

- Investment in hotel development is on the rise, little speculation of slowing growth or profitability
- Two success stories: JW Marriott and Radisson Blu
- Site Proximity: more than capable absorption
- Micro-Hotel: Millennial Demand

# Motel One: Munich



## Market Analysis: Fitness Center

- Growth in market to health trends: Significant growth of 18.6% since 2008
- 7.4% increase in revenue since 2014
- Increase demand for city upscale facilities such as Lifetime fitness and Equinox
- No direct local competition in Bloomington area, forecasted demand rise

# Lifetime Fitness



# Equinox



Credit: Bulfinch Companies, INC

## *Development Plan*

<u>Property Type</u>	<u>Proposal For Product</u>
Hotel	400,000 square feet, 1,120 rooms, 4 stories
Retail/Entertainment	540,000 square feet, 3 stories
Fitness Center/ Medical Office	261,000 square feet, 3 stories
Parking	379,500 square feet, 4 stories, 1,150 stalls

# Proposed Product Placement



## TIF Assumptions

### Uses:

- Public Parking Structure
- Public Infrastructure Improvement
- City Permitted 20%
- Construction costs for parking ramp \$26,450,000
- $0.20 * 26,450,000 = \$5,290,000$
- Private funding also a consideration due to high capital needed and leveraged
- Upfront costs may be paid with pay-as-you-go financing, proposal for bond issuance, interfund loans

# Construction Costs

Land	\$19,957,000.00
Hotel	\$89,631,360.00
Retail	\$89,100,000.00
Fitness Center	\$30,450,000.00
Medical Office	\$20,619,000.00
Parking Ramp I (above ground)	\$8,625,000.00
Parking Ramp II (below ground)	\$17,825,000.00
<b>TOTAL EXPENSES</b>	<b>\$276,207,360.00</b>

Total Project Cost	\$276,207,360.00						
Equity	\$82,862,208.00						
Loan	\$193,345,152.00						
TIF			\$5,290,000.00	\$5,290,000.00	\$5,290,000.00	\$5,290,000.00	\$5,290,000.00
Annual Interest Only Payments	(\$7,250,443.20)	(\$7,250,443.20)					
Annual Debt Service			(\$11,161,109.87)	(\$11,161,109.87)	(\$11,161,109.87)	(\$11,161,109.87)	(\$11,161,109.87)
Annual Debt Service Less TIF			(\$5,871,109.87)	(\$5,871,109.87)	(\$5,871,109.87)	(\$5,871,109.87)	(\$5,871,109.87)
CFADS			\$52,308,026.13	\$37,995,271.22	\$39,941,437.25	\$41,315,813.66	\$42,731,421.37

# Financing Assumptions

Financing Assumptions			
Construction / Permanent Loan Assumptions			
LTV	70%	Term	25
Prime Rate (WSJ)	3.50%	3-Year Treasury Rate (WSJ)	0.881%
Spread Over Prime Rate	0.25%	Spread Over Treasury Rate	2.25%
Construction Loan Rate	3.75%	Rate	3.1310%
Contributed Equity	30.00%	Equity Investment	\$82,862,208.00
Construction Loan	\$193,345,152.00	TIF Funding	\$5,290,000.00
Permanent Loan Amount	\$193,345,152.00	Payment	(\$5,871,109.87)

IRR (5 Year Hold)	30.4342%
IRR (7 Year Hold)	26.1123%
IRR (10 Year Hold)	23.0786%

# Revenues

## Revenue Assumptions

Retail Assumptions		Fitness Center Assumptions	
\$40.00	Rent/SF	Rent/SF	\$41.00
Total SF	540,000	Total SF	174,000
Vacancy	7.00%	Vacancy	9.00%
Hotel Assumptions			
Total Rooms	1,120	Common Area SF/Room	284
Occupancy	70%	Average Room Size (SF)	200
Average Room Rate	\$100.00		
Medical Office Assumptions			
Rent/SF	\$60.00		
Total SF	87,000		
Vacancy	6.00%		

# Expenses

## Expense Assumptions

Land Assumptions				Hotel Assumptions			
Price/SF	\$35.00	Tax Rate	5.5%	Number of rooms	1120		
Total SF	570,200			Average Room Size	200	Operating Expense/SF	\$73.18
				Common Area SF/Room	284	Tax Rate	5.5%
				Cost/SF	\$234.00		
Fitness Center Assumptions				Medical Office Assumptions			
Price/SF	\$175.00			Price/SF	\$237.00		
Total SF	174,000	Tax Rate	5.5%	Total SF	87,000	Tax Rate	5.5%
Operating Expense/SF	\$31.00			Operating Expense/SF	\$32.00		
Retail Assumptions				Parking Assumptions I (Above Ground)			
Price/SF	\$165.00			Total Stalls	575		
Total SF	540,000	Tax Rate	5.5%	Cost/Stall	\$15,000.00	Operating Costs/SF	\$2.00
Operating Expense/SF	\$16.00			Stall SF	330		
				Total SF	189,750	Tax Rate	5.5%
				Parking Assumptions II (Below ground)			
				Total Stalls	575		
				Cost/Stall	\$31,000.00	Operating Costs/SF	\$2.00
				Stall SF	330		
				Total SF	189,750	Tax Rate	5.5%

# Will this be Profitable?

	Construction						
Fiscal Year (Beginning in May)	2017	2018	2019	2020	2021	2022	2023
<b>REVENUES (By Property Type)</b>							
Hotel			\$28,616,000.00	\$29,474,480.00	\$30,358,714.40	\$31,269,475.83	\$32,207,560.11
Retail			\$20,088,000.00	\$20,690,640.00	\$21,311,359.20	\$21,950,699.98	\$22,609,220.98
Fitness Center			\$6,491,940.00	\$6,686,698.20	\$6,887,299.15	\$7,093,918.12	\$7,306,735.66
Medical Office			\$4,906,800.00	\$5,054,004.00	\$5,205,624.12	\$5,361,792.84	\$5,522,646.63
Parking							
<b>TOTAL REVENUES</b>			<b>\$100,117,480.00</b>	<b>\$103,121,004.40</b>	<b>\$106,214,634.53</b>	<b>\$109,401,073.57</b>	<b>\$112,683,105.77</b>
<b>COSTS (By Property Type)</b>							
Land	\$19,957,000.00						
Hotel	\$89,631,360.00		\$24,361,344.00	\$25,092,184.32	\$25,844,949.85	\$26,620,298.35	\$27,418,907.30
Retail	\$89,100,000.00		\$8,640,000.00	\$25,092,184.32	\$25,844,949.85	\$26,620,298.35	\$27,418,907.30
Fitness Center	\$30,450,000.00		\$5,394,000.00	\$5,555,820.00	\$5,092,320.00	\$5,245,089.60	\$5,402,442.29
Medical Office	\$20,619,000.00		\$2,784,000.00	\$2,867,520.00	\$2,953,545.60	\$3,042,151.97	\$3,133,416.53
Parking Ramp I (above ground)	\$8,625,000.00		\$379,500.00	\$390,885.00	\$402,611.55	\$414,689.90	\$427,130.59
Parking Ramp II (below ground)	\$17,825,000.00		\$379,500.00	\$256,029.68	\$263,710.57	\$271,621.88	\$279,770.54
<b>TOTAL EXPENSES</b>	<b>\$276,207,360.00</b>		<b>\$41,938,344.00</b>	<b>\$59,254,623.32</b>	<b>\$60,402,087.41</b>	<b>\$62,214,150.04</b>	<b>\$64,080,574.54</b>
<b>NOI</b>			<b>\$58,179,136.00</b>	<b>\$43,866,381.09</b>	<b>\$45,812,547.12</b>	<b>\$47,186,923.53</b>	<b>\$48,602,531.24</b>
Cash flows After DS			\$52,308,026.13	\$37,995,271.22	\$39,941,437.25	\$41,315,813.66	\$42,731,421.37
NOI DSCR			9.9094	7.4716	7.8030	8.0371	8.2783
ROE			70.2119%	52.9389%	55.2876%	56.9463%	58.6546%

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Any Questions?

