

McCOMB GROUP, Ltd.

R E A L E S T A T E A N D
R E T A I L C O N S U L T A N T S

Revised
November 24, 2009

Mr. Philip Kern, City Administrator
CITY OF DELANO
234 2nd Street North
Delano, MN 55328

Dear Mr. Kern:

In response to your request, we have prepared a work program to conduct market analysis to determine future demand for retail, food service, and service uses in Delano. The objective of this engagement is to identify market potential for retail stores and services in downtown Delano and along Highway 12. Specific objectives are summarized below:

- Determine the existing tenant mix in downtown Delano and along Highway 12.
- Interview Delano retailers.
- Conduct a customer survey.
- Identify competitive shopping areas.
- Delineate downtown Delano's current trade area.
- Delineate Delano's trade area with a discount store.
- Evaluate trade area demographics.
- Evaluate existing retail sales and market share.
- Identify demand for retail stores in 2010 and 2015.
- Estimate future supportable square footage for retail stores, food service, and services for 2010 and 2015 for planning purposes.

The work program described below is designed to identify market demand for additional retail, food service, and services in Delano for 2010 and 2015.

WORK PROGRAM

The work program outlined below is designed to fulfill the above objectives. Specific work tasks include:

◆ Study Area Evaluation

Retail, food service, and service establishments in downtown and along Highway 12 will be identified and categorized by type to determine tenant mix and market orientation of each retail area.

◆ **Competitive Shopping Areas**

Shopping areas that are competitive with Delano retail areas will be identified and evaluated. Principal competitors will be evaluated for anchor stores, and market orientation.

◆ **Business Interviews**

Retail store owners and/or managers in Delano shopping areas will be interviewed to obtain their impressions of retailing in Delano, the area from which they draw their customers, and to obtain input on strengths and weaknesses, as well as identify what they think should be done to improve business in Delano.

◆ **Customer Survey**

Retail businesses in Delano will be asked to participate in a survey of their customers to determine where they live and work and why they shop at that business. As contemplated, employees of each store will conduct a brief survey as customers pay for their goods or services. The budget assumes 10 to 20 business participants and that the City of Delano can arrange for distribution of survey forms and instructions, and collection of completed survey instruments. Each merchant participant will be provided with survey results for their business. This information will be used to help identify the primary trade area for Delano retailers and the amount of inflow patronage.

◆ **Retail Sales Trends**

Retail sales trends in Delano will be examined to determine market share trends. This will include City of Delano retail sales for 1997 and 2002 from the Retail Census updated by McComb Group using local information and Minnesota sales tax records.

◆ **Trade Area Analysis**

Based on arterial road patterns, competitive shopping areas, drive times, and McComb Group experience, the trade areas for Delano retail areas will be delineated. The economy of the trade area will be analyzed to identify and quantify those factors that generate support for retail and service establishments. Factors to be evaluated include, but are not limited to: population, households, building permits, and household income. Trade area growth trends will be evaluated to determine residential growth potential for target years of 2010 and 2015. Retail and service purchasing power of trade area households will be estimated using McComb Group's proprietary retail purchasing power model that contains sales potential for over 120 business establishments.

◆ **Future Retail Supportable Space**

Market demand for retail, food service, and service business establishments in Delano will be identified based on estimated trade area population and household growth taking into consideration competitive impacts, trade area demographics, trade area purchasing power, and estimated market share. Based on this analysis, future demand for retail, food service, and service space will be estimated by business type for Delano with its current

tenant mix and with a future discount store for 2010 and 2015 using McComb Group's proprietary purchasing power model that contains over 120 businesses.

The results of our work will be documented in an executive summary designed to meet client needs. The report will contain appropriate graphics of our principal findings, conclusions, and recommendations.

MEETINGS

Four meetings are planned during the course of the evaluation and include the following:

- ◆ **Start-Up Meeting** will be held at the beginning of the engagement to finalize research objectives and obtain client-provided information.
- ◆ **Business Community Meeting** will be held to describe the study and solicit participation in the customer survey.
- ◆ **Report Meeting** to discuss results of work tasks and recommendations with the client. This meeting will cover all aspects of the research program.
- ◆ **Business Community Report Meeting** to discuss report findings and recommendations.

The budget provides for four meetings as described above. Additional meetings will be billed at our normal hourly rates plus expenses.

SCHEDULE

The work scope and tasks described in this engagement letter can be completed within a 12-week period following receipt of this signed engagement letter and retainer.

QUALIFICATIONS AND EXPERIENCE

McComb Group, Ltd. is a full-service retail and real estate consulting firm specializing in market research and financial feasibility. The firm has extensive experience in the retail industry and has conducted market research for retail stores and shopping centers of all types including regional malls, community centers and specialty centers.

McComb Group, Ltd. has a team that is qualified to conduct the research described in this proposal. McComb Group's professional staff associated with this engagement includes the following:

- ◆ James B. McComb, President, founded the predecessor of McComb Group in 1974 following six years as a member of the corporate staff with Dayton Hudson Corporation. His experiences at Dayton Hudson and daily association with merchants and shopping center developers provided the impetus for McComb Group's approach to shopping center and retail market research and financial feasibility, which includes strong elements of design and merchandise sensitivities. The firm's approach to shopping center research and marketing has undergone continuous development and refinement over the past 20 years.

- ◆ Linda Oie, Senior Associate, conducts market research, demographic and consumer analysis for client engagements. Ms. Oie manages the firm's geographic information systems (GIS) and demographic databases using a variety of computer platforms and proprietary software.

Prior to joining McComb Group, Ms. Oie was employed as Marketplace Information Manager at SuperValu, Inc. Her responsibilities included conducting strategic consumer-based analysis of existing and prospective supermarkets, profiling SuperValu customers, and delineating trade areas for existing and proposed stores.

- ◆ Lori Hoffman, Associate, has over 15 years of experience in the multi-family industry. Ms. Hoffman conducts competitive evaluations, demographic and market research for retail, residential and commercial developments. Prior to joining McComb Group, Ms. Hoffman was employed as Director of Research Services at GVA Marquette Advisors. Her responsibilities included collecting rent and occupancy rates, data management, and preparing statistics for the quarterly publication *Apartment Trends*. Ms. Hoffman previously worked for Apartment Search as Senior Project Director in their Apartment Search "Profiles" division.
- ◆ Susan Nache, Consultant, performs market research, demographic analysis, and consumer research tasks. Ms. Nache conducts consumer research analysis and cross-tabulation on McComb Group's survey processing software; and is familiar with software programs used by McComb Group for financial feasibility and statistical analysis.

Mr. McComb will be responsible for managing and directing the overall research program and will participate directly in findings and conclusions. Individual work tasks will be assigned to personnel within the firm based on qualifications and experience.

BUDGET

The budget for the work program and work products described in this proposal is shown below.

<u>Professional Services</u>	<u>Budget</u>
Study Area Evaluation	\$ 2,200
Competitive Shopping Areas	1,900
Business Interviews	1,200
Customer Survey	3,200
Retail Sales Trends	700
Trade Area and Future Growth Analysis	1,450
Future Retail Supportable Space	2,500
Report Preparation	850
Meetings	<u>2,800</u>
Total Professional Services	\$ 16,800

Expenses (Estimated)

Mileage	\$ 300	
Demographics	350	
Computer & Software	900	
Geocoding	250	
Report Production	1,000	
Reproduction	100	
Miscellaneous	<u>50</u>	
Total Expenses		\$ 2,950

TOTAL BUDGET **\$ 19,750**

The professional fees for the services outlined in this proposal total \$16,800 and will be performed at a price not-to-exceed that amount. Expenses, estimated at \$2,950, are to be reimbursed based on actual cost. The budget is based on the amount of time required to perform the work tasks and our normal hourly billing rates of \$275 for principals, \$200-\$275 for executive associates, \$150 for senior associates, \$125 for associates, and \$75-\$100 for consultants.

Company policy requires a retainer of approximately one half the estimated budget for the project or \$9,500. The retainer will be applied to the final invoice as a credit for billing of professional services and expenses. Invoices for professional services and expenses will be rendered at mid-month and month-end as our work progresses.

Standard billing terms are net ten days. A finance charge of 1.5 percent will be charged on all unpaid balances outstanding more than 30 days.

REPORT PURPOSE

This proposal was prepared with the understanding that the results of our work will be used by the client to identify additional retailers for Delano and as part of the comprehensive planning process and may be shared with developers, lenders and other investors. Our report will be prepared for that purpose and will be subject to the following qualifications:

- ◆ Our analysis will not ascertain the legal and regulatory requirements applicable to this project, including zoning, other state and local government regulations, permits and licenses. No effort will be made to determine the possible effect on the proposed project of present or future federal, state or local legislation, or any environmental or ecological matters.
- ◆ Our report and analysis will be based on estimates, assumptions and other information developed from research of the market, knowledge of the industry and discussions with the client. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, actual results achieved will vary from the analysis.
- ◆ Our analysis will not evaluate management's effectiveness or be responsible for future

marketing efforts and other management actions upon which actual results are dependent.

- ◆ Our report will be intended solely for the purpose described above and should not be used for any other purpose without our prior written permission. Permission for other use of the report will be granted only upon meeting company standards for the proposed use.

These qualifications will be included in our final report. If the report is used for purposes other than specified above, we reserve the right to review the materials for proper use of our work.

ACCEPTANCE PROCEDURES

To indicate acceptance of the proposal, please sign a copy of the proposal and return it to us together with your check for the retainer as authorization to proceed with this engagement.

We appreciate the opportunity to submit this proposal and look forward to hearing from you soon. If you have any questions concerning the proposal, please call me at (612) 339-7000.

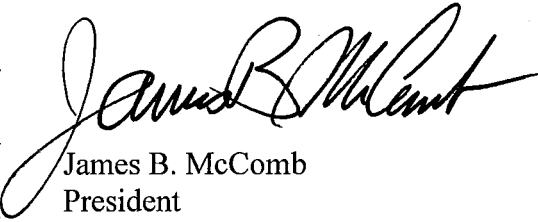
Accepted By: _____

McComb Group, Ltd.

Company: _____

Title: _____

Date: _____



James B. McComb
President