INTRODUCTION & BACKGROUND

Downtown Sioux Falls, Inc. (DTSF) requests proposals from an experienced retail consultant to provide a retail needs analysis that evaluates current conditions and tenant mix, and develop a retail retention, expansion, and recruiting strategy. Entry-level opportunities for local entrepreneurs and/or an incentive program for commercial realtors would also be considered.

Downtown Sioux Falls is 478 acres, or approximately 112 city blocks. It is the cultural and economic hub of the region and is experiencing rapid residential growth. Downtown’s retail sector is strong, but secondary to other retail destinations in Sioux Falls that offer more regional and national retailers. What makes downtown retail most unique is its robust offering of locally owned businesses.

The impetus for this RFP stems from strategic work done in 2021, which identified the need for a retail retention, expansion, recruitment program to develop the desired retail mix for downtown Sioux Falls. Additionally, the City of Sioux Falls has commissioned a market study for downtown’s development potential, including retail. The market study is attached for you to consider any and all recommendations within.

The desired impact is to strengthen downtown’s retail offerings and provide an irresistible shopping experience for all. Proposals should consider the current challenges of downtown’s retail environment, like the ground floor retail being converted to office space, and balance that with creative opportunities to attract new shoppers with an engaging mix of retail. Successful proposals will consider the seasonal fluctuations that downtown Sioux Falls experiences from summer to winter and the impact it has on retail.

The ideal firm has extensive experience with economic development in the retail industry for central business districts. The finalist will demonstrate that they clearly understand the scope of work and present a proposal that is implementable and exceeds the objectives.
SCOPE

• Analyze existing and potential conditions for retail in downtown Sioux Falls, including its current mix of businesses, commercial building stock and developable land, position relative to the trade area, competition, retail trends, and key consumer personas.
• Develop a retail retention, expansion, and recruitment plan that will inform current and future retail needs, and identify an appropriate program(s) for a small organization like DTSF to administer.
  ◦ Develop a viable process for connecting prospective retail businesses to commercial property owners, real estate brokers, and developers; and
  ◦ Develop and/or procure quality recruitment tools (dashboards, pitch decks, maps, demographic profiles, etc.) to incorporate into the recruitment process.
  ◦ Analyze the feasibility of a public market and/or a food hall as an incubator and anchor for downtown retail.
  ◦ Provide policy recommendations for which DTSF can advocate to ensure there is a thriving retail scene downtown.

PROPOSAL REQUIREMENTS

Cover Letter: This should encompass key elements of the proposal, offering a snapshot of the firm's structure, pertinent accomplishments, specialized staff expertise, and facilities dedicated to downtown service. Additionally, it should provide the contact person's name, mailing address, phone number, and email address for any inquiries related to the submitted proposal, ideally the individual overseeing the project.

Qualifications & Relevant Experience: Furnish a concise background and profile of your firm, including details about the legal entity responsible for contractual commitments, the office location designated for project execution, and the authorized individual with the capacity to engage in a master contract agreement. Additionally, present a narrative outlining your firm's relevant experience and qualifications pertaining to the scope of work, accompanied by a comprehensive list of projects that align with similar scopes of work.
References: Provide a list of relevant projects completed by the firm under which services like those required by this RFP were performed. An emphasis should be placed on projects undertaken within the past three years and those projects undertaken for agencies located in similar sized communities. Include a brief description of the project, dates the services were provided and contact information of references familiar with the services provided.

Proposed Fee Structure: Every proposal must include a comprehensive cost proposal that itemizes rates, fees, charges, and all associated expenses for services that meet the aforementioned scope of work. Firms should provide a detailed breakdown of the cost calculation methodology. Incorporate a "not to exceed" figure representing the total anticipated cost over the agreement’s term. Any additional services shall be proposed as part of a supplemental menu of options.

Key Questions:
- What is your firm’s proposed timeline for deliverables?
- What sets your firm apart from other firms that conduct similar work?
- What will be the most noticeable impact for our constituents if we select your firm?
- Who are your typical clients?

SELECTION CRITERIA

DTSF reserves the right to reject proposals where evidence or evaluation is determined to indicate inability to perform. DTSF reserves the right to interview any or all responding firms and/or to award a contract without conducting interviews.

The following criteria below will be used in evaluating the proposals submitted.
- Demonstrated understanding of the proposal, and the firm’s overall experience with similar projects comparable in type, size, and complexity.
- Qualifications and expertise of the firm's staff assigned to the project.
- Proposed cost of services. DTSF will prioritize proposals less than $40,000.
- Timeline for Deliverables. DTSF will prioritize those proposals that are executable by the start of Q3 2024.
- Client References - Performance on similar projects based on input from references.
The most highly qualified firm(s) may be invited to engage in a face-to-face interview, providing an opportunity for an in-depth exploration of the proposal’s contents. If interviews are scheduled, DTSF will promptly inform the finalists about the interview’s date and time.

The most highly qualified firm(s) will subsequently engage in exclusive negotiations with DTSF to formalize the Agreement, Plan Requirements, and Compensation. These negotiations will encompass discussions related to establishing a fair and equitable price and other agreement terms. In the event that DTSF is unable to secure a fair and reasonable price or fails to reach an accord regarding the terms with the selected firm, DTSF will conclude negotiations with that firm and initiate negotiations with the next most suitable firm that aligns with DTSF’s requirements. This process will continue until DTSF reaches an agreement with a qualified firm.

**SCHEDULE OF EVENTS**

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<thead>
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<tr>
<td>RFP Released</td>
<td>September 28, 2023</td>
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<tr>
<td>Deadline for any questions</td>
<td>October 26, 2023</td>
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<td>Addendum posted</td>
<td>November 2, 2023</td>
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<td>Deadline for proposal submissions</td>
<td>November 7, 2023</td>
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<td>November 10, 2023</td>
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<td>Potential interview of firms</td>
<td>November 14, 2023</td>
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<td>Award proposal</td>
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Sioux Falls 2035 Downtown Plan: Market Analysis

Date December 8, 2022 |
To Sioux Falls Downtown Plan Project Team
From Chris Zahas and Ted Kamp, Leland Consulting Group

Executive Summary

In 2014, the City of Sioux Falls adopted the 2025 Downtown Plan, an ambitious strategic framework for revitalizing the city’s central core. That plan was accompanied by a Sioux Falls Downtown Plan Market Study. This report represents an update to that 2014 market study and is intended to help guide the updated 2035 Downtown Plan with a fresh look at market conditions and development prospects for downtown. This report includes a new quantitative forecast of development potential and a strategic overview of development opportunities—all grounded in a fresh analysis of market conditions and review of progress to date.

Robust Pace of Growth

- Population growth in Sioux Falls overall has outpaced even the highest scenario projections laid out in the 2025 Downtown Plan, and downtown development and redevelopment activity has been robust since plan adoption.
- Actual citywide growth from 2015 to 2020 averaged 2.5 percent annually.
- Growth in 2021 and the first half of 2022 has been even more dramatic, with citywide residential building permits hitting record levels. After averaging just under 1,700 annual units from 2010 through 2019, Sioux Falls permitted approximately 2,800 in 2020, 3,100 in 2021, and over 2,600 units in the first half of 2022 alone.
- With the exception of a brief blip due to the global COVID-19 pandemic, both downtown and the city as a whole have enjoyed a vigorous boom period since 2014, with significant private sector development activity and wide-ranging public sector investments in physical and cultural infrastructure.

Including projects under construction as of this report, residential, retail, and office development downtown has absorbed at exceptional annual rates—well within the ambitious ranges envisioned in the 2025 Downtown Plan.

Note that for this analysis, “downtown” refers to a rectangular geographic study area (shown in exhibits throughout this report) that encompasses the central Sioux Falls business district together with neighborhoods immediately adjacent.
Downtown Job Growth Response

While employment growth in Sioux Falls has been strong throughout the past decade, post-recession job growth for downtown was stagnant from 2011 to 2014 – only rising to match citywide rates after adoption of the 2025 Downtown Plan. Although the same jobs data is not available for 2020 to 2022, commercial development activity suggests that downtown's annual job growth rate may have doubled over the past two years.
Residential Market

Market demand for new residential has been exceptionally strong across Sioux Falls in recent years, driven by unusually high multifamily absorption.

For 2015 through the first half of 2022, the multifamily share of all units permitted increased to 55 percent, up from 38 percent historically.

Since 2014, 1,366 housing units have been built (or are currently under construction) within the downtown study area, including these major projects:

- Cascade Lofts (701 N. Phillips), 197 units, completed 2020
- First Avenue Partners (400 S. 1st Ave), 190 units, pending
- The Clark at Cherapa Place, 124 units, under construction
- Steel District residential, 115 units, under construction
- The Dakota at Cherapa Place, 109 units, under construction
- Third Avenue Lofts, 87 units, under construction
- Phillips Avenue Lofts, 86 units, completed 2014

The residential market, both in Sioux Falls and throughout the urban U.S., is characterized by high demand and insufficient supply production, resulting in low vacancies and spiraling home prices and rents.

Demand on the for-sale side is driven chiefly by family formation among Millennials finally entering the ownership stages of life, typically looking for suburban product. Demand for downtown-type housing comes from a combination of sources including downsizing Boomers and Gen Xers, and older Generation Z youth entering the apartment market (plus increasing numbers across the board now priced out of the ownership market).
Based on a 2.3-percent annual citywide growth rate projection (conservative relative to recent record years), along with relatively steady resident incomes and household sizes, Leland Consulting Group projects **attainable annual residential absorption of 100 to 160 units per year in the downtown study area** over the coming decade, representing a 4 to 8 percent overall share of likely citywide demand.

- Product mix going forward should resemble recent and ongoing projects – all multifamily rentals or ownership attached product (townhomes, condos, rowhomes, lofts, etc.).
- Some limited accessory dwelling unit (ADU) conversions and opportunistic plex (2, 3, 4 units attached) redevelopment is likely for the existing single-family neighborhoods east of Weber Avenue. Such densification should respect existing neighborhood character and may need to be mitigated by increased bike/pedestrian facilities, pocket parks, and similar public amenities.
- The Railyard property represents the largest single redevelopment opportunity for residential in the study area, with potential for around 275 units.

**Office Market**

- Office development in downtown Sioux Falls has excellent momentum, with over 300,000 square feet of new space coming online at the Cherapa Place and Steel District projects currently underway.
- Recent major completions include the 76,000 s.f. First Premier Bank building at 500 S. Minnesota, finished in 2021, and the 58,000 s.f. (public sector) City Center offices at 231 N. Dakota.
- Class A office vacancy is extremely low at approximately 4.2 percent in suburban Sioux Falls and approaching 2.0 percent in the downtown area. Overall office vacancy across Sioux Falls is on the tight side of healthy, at 9 percent (compared to just over 15 percent nationally). High demand and low vacancy are driving rising rents across all product types.

Based on an analysis of historical and projected employment growth rates across industry groupings in Sioux Falls, along with assumptions of office space usage by industry, **LCG projects average annual office demand for downtown of 24,000 to 35,000 s.f.** – representing a 20 to 30 percent share of citywide demand.

- Successful lease-up of the Cherapa Place and Steel District (with limited negative absorption elsewhere) will be an important bellwether for downtown office development prospects going forward.
- A challenge facing the office market nationally is the open question of how many post-COVID office workers will continue with work-from-home arrangements. During current conditions of extremely low national unemployment, employees have generally had sufficient negotiating power to maintain at least a flex arrangement, but that could change under even a mild recession scenario.

**Retail Market**

- Despite the ever-increasing share of Amazon and related online retail, downtown Sioux Falls has managed to add almost 60,000 s.f. of new retail space since 2014, with another 140,000 s.f. under construction.
- The 20,000 square feet of ground floor dining and shops beneath the Cascade Lofts project on the north end of Phillips Avenue is the largest recent retail completion to date (2020).
Sioux Falls Downtown Plan: Market Analysis

- The downtown area has no measurable spending “leakage” in any major store category – generally drawing most of its customer base from shoppers and diners living outside the study area.

- With no real leakage and such an active pipeline due for completion over the near term, LCG projects a tapering of retail demand over the coming decade.

- The addition of new residential rooftops will add modest levels of new demand for commodity goods like grocery and drugstores, with enough demand generated to support a small format grocer (10,000-15,000 s.f.) and potentially another drugstore of similar size. To the extent that such a store is a destination brand that would attract shoppers from across the city, the supportable size could be significantly higher.

- Other future retail demand will continue in the form of dining/drinking and specialty shops appealing to the growing downtown office worker and visitor populations.

- LCG estimates total annual retail and dining demand ranging from 15,000 to 22,000 square feet, coming from added households, visitors, and office workers.

Areas for Additional Research

Finally, the following map highlights four major properties with significant redevelopment potential but that may be in need of additional analysis to ensure likelihood of development success and consistency with City of Sioux Falls’ strategic priorities:

- **“Wells Fargo Block” property:** a 2.6-acre site with residential, office, or mixed-use potential. Not currently on the market, as the bank and offices are operational, but building is outdated and the site as a whole is underutilized.

- **Mall Avenue Parking Ramp** property: a 1.1-acre site with potential for multiple land use types. Facility was built with structural capacity for multistory construction above, so need to find right user to redesign and complete.

- **Railyard** property: 4.2-acre site with preliminary planning studies complete, but no projects underway. Excellent potential for mixed-use residential/commercial redevelopment.

- **Social Services Building** property: currently operational as public sector building, but underutilized given location and potential value. 7.2-acre site for a potential municipal complex or mixed-use development.
Figure ES3: Development Opportunity/Analysis Sites

- Mall Ave Ramp property (1.1 ac)
- SD Social Services property (7.2 ac)
- Wells Fargo Block property
- Railyard property (4.2 ac)
Introduction

In 2014, the City of Sioux Falls adopted the 2025 Downtown Plan, an ambitious strategic framework for revitalizing the city’s central core. That plan was accompanied by a Sioux Falls Downtown Plan Market Study. This report represents an update to that 2014 market analysis and is intended to help guide the updated 2035 Downtown Plan with a fresh look at market conditions and development prospects for downtown. This report includes a new quantitative forecast of development potential and a strategic overview of development opportunities—all grounded in a fresh analysis of market conditions and review of progress to date.

Task Overview

This Market Analysis includes existing and future market conditions for development in the project study area based on current forecasts for population and employment growth; published forecasts for expected growth and development trends; contact with industry professionals; and information provided by City staff.

Project Study Area

The project study area encompasses a one-mile-wide rectangle around downtown Sioux Falls from Russell Street on the north to 17th Street on the south, as indicated below in Figure 1. The study area is bounded by Spring Avenue on the west (one block west of Minnesota Avenue) and extends eastward to Cliff Avenue. The area includes blocks typically considered to be part of downtown along with adjacent blocks closely impacted by downtown and relevant to the plan update.

Figure 1. Downtown Study Area

Source: City staff, Leland Consulting Group

Leland Consulting Group
Market Area Definitions

Market areas are defined based on several variables, including drive time, destinations, commute patterns, and other geographic relationships. Data quality and availability also play a role in determining the most useful area boundaries. Unlike many metropolitan areas, Sioux Falls is far larger than any neighboring suburban municipality and faces very little development competition from unincorporated lands within Minnehaha County, making the city itself a suitable market area for most demand estimation.

For retail and dining/drinking uses, a market area represents the geography from which most spending demand will be drawn, either from household “rooftops” or from nearby office workers. Because of the destination nature of many downtown retailers and restaurants, the effective retail market area in this case is considered to be the Sioux Falls city limits overall, with some exceptions and caveats explained in the retail demand discussion.

Likewise, for residential, office, and industrial/flex uses, a market area geography is assumed to encompass the city overall. For these land uses, the market area definition is driven more by competition than the location of potential areas of demand (since it is quite common for prospective new residents and new employers to relocate from well outside the market area). In other words, downtown developments are generally expected to compete with potential developments across the local region to capture a share of likely future citywide growth. While competition may be even more localized for certain specific land uses within these categories, a citywide market area boundary is best for estimating the overall available pool of demand across multiple product types.

Figure 2. Regional Overview and Market Area (Sioux Falls City Limits)

Note: While the primary market area definition for all land uses is the Sioux Falls City Limits, this analysis makes use of data for Minnehaha County (and to a lesser extent, Lincoln County) in cases where data availability is limited to the county level.

Source: TIGER, Leland Consulting Group
**National and Regional Context**

**Global and National Events: COVID, Supply Chain, Inflation**

The past two years have been especially turbulent for real estate development and society in general, with the COVID pandemic, the Russian invasion of Ukraine, widespread supply chain disruptions, and global inflation pressures among the many significant factors contributing to market uncertainties.

The most significant economic impacts of the COVID pandemic were felt in 2020, as most nations implemented lockdown policies that resulted in complete shutdowns of large sectors of the economy. While commerce briefly ground to a halt across the board, those service sector industries relying on face-to-face contact, such as hospitality and travel, saw the most extended interruptions to normal business. Office workers temporarily had to rely on remote meetings via home offices, an arrangement that has proven preferable to many employees even as lockdown restrictions have long since faded.

The global post-lockdown rebound in household and industrial demand, coupled with supply chain disruptions (some of which predated COVID) and excess available household cash in the form of stimulus payments, combined to spark widespread consumer and wage inflation with housing and fuel seeing especially steep price increases. Rising inflation, in turn, has caused the Federal Reserve to raise interest rates to cool the economy – with the direct result of further driving up mortgage payments for new borrowers (payments already rising due to low/slow supply and strong demand).

These dynamics have taken place in the context of remarkably low national unemployment. The tight labor market has led to several related trends tying back into some already-mentioned themes. An undersupplied labor pool places more power in the hands of employees versus owners, all but ensuring that rising consumer prices will place upwards pressure on wages, feeding the inflation cycle. As many firms struggle to hire and retain skilled (even semi-skilled) workers, many supply chain disruptions have stubbornly persisted. Also, many white-collar workers have thus far been able to resist management’s push to return to the office, causing most firms to assume that a more flexible home/office work arrangement may be the new normal, at least for the time being – causing prolonged post-COVID demand uncertainty in the commercial office market.

**Demographics**

This section provides an overview of past, existing, and projected demographic conditions focused on the City of Sioux Falls, the downtown study area, and larger comparison geographies.

**Core Demographic Shifts**

Broadly speaking, the demographic landscape in the U.S. remains dominated by its two generational population bulges, Baby Boomers and Millennials, as their needs and consumer demands adapt to each new life stage. Boomers, aged 58 to 76 as of 2022, are retiring in droves. While some Boomer retirees may consider urban settings (like downtown Sioux Falls) as an amenity-rich, lower-maintenance housing option, that cohort has shown a general preference for more suburban real estate. Generation X, a cohort now aged 42 to 58, is much smaller in size, but is nevertheless an important pool of demand for downtown housing, partly because many are downsizing as they enter empty-nester years, and also because many have maintained an affinity for urban settings through life.
Sioux Falls Downtown Plan: Market Analysis

The massive Millennial generation is expected to primarily generate demand for suburban detached housing development, drawn by superior schools, more yard space, and perceived safety advantages. Though they have been notoriously late to form separate households and to enter the ownership housing market (in part due to unfortunate economic timing), Millennials now fully span prime child-raising and home-buying ages (26 to 41 as of 2022) and have become a driving force for demand in that sector. Due to the sheer size of the group, if even a substantial minority choose to remain in single and dual households, they may be another legitimate source of downtown housing (and shopping/entertainment) demand.

Today’s Gen Z (now aged 10 to 25) are straddling adulthood, with a suburban-heavy younger segment still living at home with parents, plus a growing group just beginning to strike out and spur multifamily housing demand. Like Millennials a decade ago, this generation faces some difficult challenges ahead in transitioning from apartments to entry-level ownership housing. For now, however, they should be considered an important, growing target market for downtown housing and entertainment.

**Household and Population Characteristics**

In 2021, the downtown Sioux Falls study area was home to nearly 8,000 residents—just under four percent of Sioux Falls’ total population, which just passed 200,000 in 2021.

The city of Sioux Falls grew at 2.52 percent annually between 2010 and 2021, about 3.5 times the national growth rate. After a stagnant decade from 2000 to 2010, the downtown Sioux Falls study area grew faster than the national rate for 2010-2021, but slower than the city, county, or MSA overall. Residential projects currently in the development pipeline for downtown should result in a considerably faster study area population growth rate for the coming few years.

**Table 1. Population Counts**

<table>
<thead>
<tr>
<th></th>
<th>Study Area</th>
<th>Sioux Falls</th>
<th>Minnehaha Co.</th>
<th>Sioux Falls MSA</th>
<th>USA</th>
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<tbody>
<tr>
<td>2000 Total Population</td>
<td>6,998</td>
<td>126,100</td>
<td>148,281</td>
<td>187,093</td>
<td>281,421,906</td>
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<td>2010 Total Population</td>
<td>6,882</td>
<td>154,087</td>
<td>169,468</td>
<td>228,261</td>
<td>308,745,538</td>
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<tr>
<td>2021 Total Population</td>
<td>7,746</td>
<td>202,600*</td>
<td>199,201</td>
<td>277,454</td>
<td>333,934,112</td>
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<tr>
<td>00-10 Annual Growth Rate</td>
<td>-0.17%</td>
<td>2.02%</td>
<td>1.34%</td>
<td>2.01%</td>
<td>0.93%</td>
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<tr>
<td>10-21 Annual Growth Rate</td>
<td>1.08%</td>
<td>2.52%</td>
<td>1.48%</td>
<td>1.79%</td>
<td>0.72%</td>
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<tr>
<td>00-21 Annual Growth Rate</td>
<td>0.48%</td>
<td>2.28%</td>
<td>1.42%</td>
<td>1.89%</td>
<td>0.82%</td>
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*Source: ESRI, U.S. Census, Sioux Falls Planning & Development; and Leland Consulting Group

* The City’s own estimates of 2021 (July) population is higher than the official Census estimate of 196,528
Sioux Falls Downtown Plan: Market Analysis

**Figure 3: Population Growth Comparison, Study Area vs. City of Sioux Falls, 2010 to 2021**

![Graph showing population growth comparison](image)

Source: ESRI, U.S. Census, Sioux Falls Planning & Development; and Leland Consulting Group

For the Sioux Falls, the annual rate of population growth year by year is shown in the graph below from 2000 to 2021. The average annual rate for the five years ending in 2020 was 2.5 percent, slightly faster than the 2.2-percent rate seen over ten years (which is the same as the 20-year average annual rate).

**Figure 4: City of Sioux Falls Population Growth, Annual Rates from 2000 to 2021**

![Bar chart showing annual population growth rate](image)

Source: U.S. Census, Sioux Falls Planning & Development; and Leland Consulting Group
Selected household characteristics are provided in the following table. Generally, existing households in the downtown study area are smaller, have lower incomes, lower home ownership, and lower home values than Sioux Falls and the wider region. As in many other revitalizing mid-sized downtowns, metrics related to income and home values are likely undergoing a significant upswing as a result of recent and planned development. Note also that home values shown in the table below reflect Census/ACS survey responses gathered over several years. The rapid pace of housing price inflation over just the past two years means that these figures are almost certainly significantly understated relative to today’s pricing.

Table 2. Select Demographic and Housing Characteristics, 2021 Estimates

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<td>Median Home Value*</td>
<td>$130,912</td>
<td>$226,410</td>
<td>$229,666</td>
<td>$237,645</td>
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<td>Median HH Income</td>
<td>$40,190</td>
<td>$60,881</td>
<td>$62,052</td>
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<td>Per Capita Income</td>
<td>$26,274</td>
<td>$33,760</td>
<td>$33,554</td>
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<td>Median Age</td>
<td>36.6</td>
<td>36.0</td>
<td>36.5</td>
<td>36.5</td>
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<td>Households: Percent Renter</td>
<td>72%</td>
<td>38%</td>
<td>36%</td>
<td>32%</td>
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<td>Bachelor’s Degree +</td>
<td>33%</td>
<td>36%</td>
<td>35%</td>
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<td>34%</td>
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Source: ESRI and Leland Consulting Group
*Owner-occupied housing only

As shown in Income and Education

Figure 5, the downtown study area’s median household income is considerably lower than Sioux Falls and larger comparison geographies. Downtown educational attainment is roughly on par with the U.S. overall, but lower than for the city of Sioux Falls. Again, these measures are almost certainly in transition as new housing is added to the downtown area at higher than existing price and rent points.
### Income and Education

**Figure 5. Income and Educational Attainment, Downtown Study Area and Comparisons**

Source: ESRI, U.S. Census, and Leland Consulting Group

Figure 6 shows the percent of households by income group for the study area versus the city as a whole. Using these income groupings, both areas have the highest concentration of households in the $50,000 to $75,000 income range. However, the downtown area currently has proportionally more households in lower income groups and fewer households in higher income groups relative to the city overall.

Again, this relationship may be evening out as new households move to the study area to reside in newly constructed units. The amount of shift will depend in part on the extent to which the area is able to attract housing development targeting more moderate-income households (with or without some subsidy).

**Figure 6. Households by Income Group, Study Area vs. Citywide**

Source: ESRI and Leland Consulting Group
Age Demographics

The figure below shows the distribution of the Sioux Falls population by resident ages, both currently (2021) and projected forwards by five years. This short-term perspective on growth by age group can serve as an indicator of anticipated changes to demand drivers across several development/land-use types – especially residential.

The largest bulges in the current population, Millennials and Baby Boomers naturally account for the most growth. Over the next five years, the older edge of Boomers will spur growth of over 1,900 city residents in the 75 to 79 group, while the largest segment of Millennials will turn 40 to 44 years old.

The smaller Gen X and Gen Z population groups translate into slow anticipated growth (even a moderate downward shift in the case of Gen X-ers entering their early 50s). While not as populous as Millennials or Boomers, these two groups will play a key role in near-term downtown housing demand as they seek to downsize their empty nest lifestyles or go in search of their first apartments.

Figure 7. Population by Age, City of Sioux Falls, Current and Projected (2021-2026)

Employment Dynamics

This section provides an overview of past, existing, and projected employment conditions. Employment dynamics play an important role relative to downtown development prospects in several ways -- whether directly generating need for new office space, creating customers for downtown dining and entertainment, or indirectly bolstering interest in downtown housing.
Figure 8: Total Employment, 2002 to 2019, Citywide versus Downtown Study Area

The two graphs above give a side-by-side look at changes in employment citywide (left) versus just within the downtown study area (right) since 2002. During the 2002 to 2008 national economic boom period, the city of Sioux Falls grew quickly, adding nearly 10,000 total jobs. However, that growth was almost entirely suburban in nature, where downtown added no jobs through 2007 and, in fact, lost nearly 1,000 jobs before finding bottom in 2013. Since 2014, however downtown has been a major participant in the city’s vigorous post-recession growth. Growth since 2019 (the last available year in this particular data series) stumbled only slightly due to COVID-19 in 2020 but has likely climbed even more steeply through 2021 and 2022 both citywide and downtown (based on office construction and occupancy trends).

Figure 9. Employment by Industry, Downtown vs. Sioux Falls Overall (2019)

The chart above shows the composition of the Sioux Falls workforce across major industry groupings, with the downtown employment share shown in orange. Downtown’s share of citywide employment is highest for Public Administration (government) jobs, while Finance & Professional Services and Manufacturing account for a larger absolute count of downtown jobs.

Source: Census/LEHD On the Map
Manufacturing jobs are an important component to the employment mix of any city, since those jobs tend to be basic sector (i.e., importing money in from outside the city) rather than simply recirculating money within the local economy like many retail and service firms. Although Sioux Falls manufacturing firms took a hit in the 2008-2011 recession, losing more than 1,000 jobs, the sector has rebounded relatively steadily, nearly climbing back to the pre-recession high water mark of 10,000 workers. Historically, manufacturing jobs have had a strong multiplier effect on most economies, with job gains in that sector creating a ripple effect across the local economy as those firms buy supplies locally and their workers buy local retail goods and services. Widespread globalization of supply chains has tended to mute that positive local effect somewhat, however.

**Figure 10: Manufacturing Employment, 2002 to 2019, City of Sioux Falls**

![Graph showing manufacturing employment from 2002 to 2019 for the City of Sioux Falls.](image)

Source: Census/LEHD On the Map

Downtown employment is concentrated most heavily across four major industry groupings, Financial & Professional Services, Manufacturing, Public Administration, and Hospitality & Leisure. The two largest downtown sectors, Financial & Professional Services and Manufacturing have shown some volatility over the preceding decades but are roughly at the same job levels as they were in 2002. The Hospitality & Leisure grouping has shown the clearest upward trend, steadily adding nearly 1,000 net new jobs since 2009.

Recently completed projects and known planned developments since 2020 have likely added substantially to finance-related and hospitality/leisure employment beyond what is shown here for 2019.
Although downtown’s fastest-growing job sector, Hospitality and Leisure, is typically associated with lower-wage, semi-skilled labor, the number of workers earning in the highest Census/LEHD wage bracket ($3,333+ per month) has actually been growing somewhat faster for downtown workers than for Sioux Falls workers overall.
Commuting Patterns

In pre-pandemic 2019, there were approximately 17,700 people going to work in downtown Sioux Falls. At the same time, there were 3,700 employed adults living in the downtown study area. Of those, just 650 workers managed to both live and work downtown. This means that around 17,000 people were having to commute in on a daily basis from homes outside downtown. Conversely, 3,000 downtown residents commuted out of the study area for work each day.

While this lopsided relationship is clearly not efficient, it is fairly typical of modern mid-sized U.S. cities – where auto-oriented suburbs have been a dominant urban form for decades and downtown is only recently revitalizing. This overlap measure can be a useful metric for tracking the well-roundedness of a downtown as land use diversity increases, pedestrian and bicycle amenities are improved, and more residential rooftops are added to the mix. Whether or not the unusually high fuel prices of 2022 become a new normal, the cost and personal time-use efficiencies of finding a more efficient live-work arrangement should become increasingly appealing over time to renters and homebuyers (and job seekers).

The number of people able to craft a downtown live-work lifestyle was actually somewhat higher in 2002, declined until the 2008-09 recession, and has stabilized around current levels since. During the recent prolonged economic recovery period, downtown in-commuting for work has increased steadily, climbing from 15,500 workers in 2013 to over 17,000 in 2019.

Figure 13: Trends in Study Area Commuting Patterns, 2002 to 2019

The figure below shows the number of Sioux Falls workers by three broad age groupings. All three added at least some employment between 2002 and 2019, with generational population skews largely driving the
patterns of growth. The large Baby Boomer segment contributed to steady growth in the oldest segment, aged 55 and up, accounting for more than 18,000 added jobs in 2019 compared with 2002. As that population bulge moves more fully into retirement age, we would expect those numbers to level off and then decline as the smaller Gen X cohort ages into that bracket.

Meanwhile, over that same time period, the segment of workers aged 30 to 54 also increased dramatically, adding around 12,400 jobs. Most of that growth is attributable to the size of the Millennial generation cohort (even though that age bracket included many Gen X’ers over that stretch of time).

The relative lack of job growth in the under-30 age bracket over the same years (just over 2,000 added jobs) is partly due to Millennial workers aging into the 30+ group, but also potentially reflective of a “brain drain” with a portion of highly educated young workers leaving to seek their fortunes in larger urban markets.

**Figure 14. Change in Number of Employees by Age, Sioux Falls, 2002-2019**

![Chart showing employment growth by age group from 2002 to 2019.](source: On the Map/LEHD)

**Employment Projections**

The South Dakota Department of Labor and Regulation periodically produces 10-year forecasts of employment by industry for the state and for major urban centers including the Sioux Falls MSA. The latest available forecast shows projected metro area job growth from 2018 to 2028.

As shown in the chart below, employment growth in the region is anticipated to be led by healthcare (including social services) and finance and professional services, which are already the largest industry groupings for the Sioux Falls area in terms of total jobs. These represent the most office-intensive industry categories, with 90 percent or more of finance and professional services jobs likely to occupy office space (at least in a flex...
Sioux Falls Downtown Plan: Market Analysis

capacity). Healthcare jobs are split across hospitals and medical office buildings (including clinics), with roughly a third typically needing office space.

Notably, positive job growth is expected across all industry groupings in metro Sioux Falls. Even the slowest-growing sector in the forecast, public administration, is projected to add nearly 400 jobs over the decade.

**Figure 15. Projected New Employment Growth, Sioux Falls MSA, 2018-2028**

![Image showing projected employment growth across various sectors]

*The Sioux Falls MSA includes the four-county region of McCook, Turner, Lincoln, and Minnehaha counties*

For purposes of projecting future office and industrial demand, information from these official projections is combined with data on actual historical growth across those same sectors for the city of Sioux Falls alone. Demand projections follow the section on market supply conditions.

**Market Supply and Demand by Land Use**

This section summarizes prevailing supply conditions for major land use categories that may be part of the future potential (re)development mix downtown, including multifamily residential, retail, office, medical, and hospitality, and “employment” space, which includes both industrial and office land uses. Market conditions—including the mix and geographic distribution of existing development, building vacancies, rents, planned/pipeline development, and other market trends—are critical to establishing the market’s strength and the prospects for financial feasibility and timely development of new projects.
The series of maps below show, at a glance, all major commercial land uses found citywide, including multifamily apartments. Although industrial or even flex/R&D developments are unlikely to be part of the redevelopment mix downtown, these property types are also included in the maps to illustrate the clustering and interrelationships of the different development types.

**Figure 16. Sioux Falls Commercial and Multifamily Properties (2022)**

*In broad terms:*

- Industrial and flex development is clustered to the north and west of downtown.
- Multifamily development generally forms a ring around the city, with concentrations generally along West 41st Street and along I-29 to the north and south.
Sioux Falls Downtown Plan: Market Analysis

- Office development is most intense downtown, flanking the airport to the north, and in the southwest quadrant of the city.

- Retail is heaviest along two major east-west arterials, the West 41st Street corridor, southwest of downtown, and the 12th Street/10th Street corridor roughly bisecting the city through downtown. The largest regional retail clusters are at the northeast quadrant of I-29 and W. 41st St. (Empire Mall area) and near Arrowhead and Veterans Parkways on the east side of the city.

- Hospitality is attracted to the I-29 corridor, and south of the airport, with some activity downtown (better visible on the zoomed-in downtown map).

- Health care development in Sioux Falls (hospitals, medical office, and clinics) is dominated by the two major medical centers found just south of the downtown area – Avera McKennan and Sanford/USD

This next map uses the same symbology to show downtown area commercial and multifamily properties in greater detail. The largest single commercial property, by far, is the 700,000+ square foot Smithfield hog processing facility east of the river, at the northern edge of downtown – constituting the lion’s share of downtown’s 975,000 square feet of industrial and flex space.

Figure 17: Commercial Properties, Downtown Zoom (2022)
Sioux Falls Downtown Plan: Market Analysis

Source: CoStar and Leland Consulting Group

Most other commercial development is west of the river and mostly focused around a much smaller area shown in red below, between 6th and 14th Streets, from Minnesota Avenue on the west to Cliff Avenue on the east. In fact, that core area has over 80 percent of downtown’s 3.1 million square feet of office space, just over half of downtown retail space (approaching one million square feet), and all downtown hospitality properties. Apartment development is somewhat more spread out, with about 40 percent of the nearly 1,700 downtown units found in the core.

Planned and proposed projects downtown will largely add to this core area, strengthening the area east of the river and pushing somewhat to the north beyond 6th Street.

The chart below summarizes the existing square footage by commercial property type downtown.

**Figure 18. Standing Downtown Commercial Development (2022)**

![Standing Downtown Commercial Development Chart]

Source: CoStar and Leland Consulting Group
Note: 1,700 multifamily units shown as square footage for comparison across types

**Historic Character of Downtown Building Stock**

One of strongest assets of downtown Sioux Falls is the aesthetic appeal of its historic building stock. The downtown area stands out among similar-sized Midwestern cities for both the quality and quantity of its older construction. As shown in the following chart, downtown has a standing inventory spanning across each decade back to the turn of the 20th Century, with substantial remaining stock of office, retail, and multifamily buildings represented across the century.

This historical diversity lends exceptional character and is a natural complement to civic or philanthropic investments to streetscapes, public art, and other urban amenities. These factors, especially along Phillips and Main Avenues, enhance the urban experience for shoppers, outdoor diners, and pedestrians in general – whether they are part of the downtown workforce, visitors, or, increasingly, downtown residents.
Despite the many positive effects of a robust historic building inventory, the continual maintenance and occasional retrofitting of historic facilities can be costly, requiring a commitment to preservation and design creativity. The recently repurposed Hotel on Phillips, pictured here, is an excellent example of creative adaptive reuse (conversion of a bank/office building to boutique hotel and bar) contributing to downtown placemaking.

Figure 19: Downtown Sioux Falls Standing Commercial Inventory by Decade of Construction

Note the steady influx of substantial office inventory across the decades, along with the periodic bursts of retail development, generally topping out at around 100,000 to 150,000 square feet – accompanied in the 1970s by 220,000 square feet of hotel space that still remains operational. Multifamily activity has never been stronger than in the past decade.

Residential Market

The downtown study area includes hundreds of single-family homes in older established modestly priced neighborhoods. While those neighborhoods are likely to see occasional opportunistic redevelopment and moderate densification, such as adding ADUs or converting from detached to multi-unit attached product a few lots at a time (especially if land prices continue to climb), most significant redevelopment activity will come in the form of apartments or attached ownership product (condominiums, townhomes, rowhomes, lofts, etc.) in mid-sized and occasionally larger projects. As such, this analysis focuses primarily on multifamily market dynamics without delving into trends and conditions in the single-family detached market.


**Residential Supply Conditions**

The chart below shows residential permit activity in Minnehaha County since 2000. As illustrated, residential permitting prior to the recession in 2008-09 was predominantly single-family. Since the recovery, half of total demand (or higher in some years) has been for multifamily units. In 2021, 1,825 out of 3,300 units were multifamily.

Over the past 10 years, the Minnehaha portion of Sioux Falls alone averaged 2,123 units permitted per year, with nearly 1,100 of those being multifamily. Permitting in 2022 has already exceeded the record totals from 2021, with the first nine months of 2022 yielding 4,261 permits, of which over 3,200 have been for multifamily units. 2022 has, in fact, been an unprecedented residential permitting year for many growing medium and large-sized cities throughout the United States.

**Figure 20. Sioux Falls (Minnehaha Portion) Residential Permit Activity, 2000 to 2021**

![Residential Permit Activity Chart]

*Source: U.S. Census, Leland Consulting Group*

The following map shows recent residential building permit activity in Sioux Falls. Recent housing development in the city is distributed most heavily around the west, south, and east perimeter, with a pocket of heavy development within the downtown study at the primary exception to that pattern of edge growth.

Note that multifamily development (larger orange dots) has been occurring alongside single-family development activity in almost all areas of the city. At the furthest eastern and western edges of development, single-family can be found somewhat further towards the perimeter than townhomes. Very little single-family construction has been permitted in the downtown study area.
Multifamily Rental Market Summary

Nationally, apartment demand and occupancy remained strong throughout 2021 and most of 2022, as supply chain issues, labor shortages, and some homebuilder risk aversion led to chronic underproduction of for-sale detached housing.

Because the important Millennial population bulge is approaching its optimal age/life stage for detached housing, that combination of high demand and supply shortfalls have kept intense upwards pressure on home prices. As a result, some fraction of the Millennial segment remained unable to afford to own and instead continued to bolster multifamily demand – joining downsizing Baby Boomers and a new younger generation of budding apartment-dwellers in Gen Z.
**Figure 22. Multifamily Residential Development**

The map above provides a dramatic snapshot of the remarkable level of multifamily construction activity that has taken place over the past decade in Sioux Falls (in bold outlines) – much of it in the past four to five years. Planned and under construction activity is shown with dotted red outlines, with major projects pending and under construction downtown and a substantial cluster of pipeline activity on the east side of the city, along Veterans Parkway.

**Multifamily Supply Conditions**

After 2011-2013 when there was less than 600 units of annual apartment production, the Sioux Falls multifamily market ramped up, with a bit of volatility during 2018, to a level of 1,859 units under production in the second quarter of 2022. From 2011 to 2021, the city’s apartment inventory increased by fully 8,000 units.
While those levels of apartment unit production have helped to fuel economic growth in the city and house its growing labor force, local vacancy rates have remained on the high side relative to typical multifamily markets nationally. The 6.7 percent vacancy in early 2022 was nearly two points higher than the U.S. average of 4.8 percent for the same month. That said, the steep decline in vacancy from the recent high of 9.6 percent in 2017 (resulting from unusually high unit deliveries from 2016 construction), contributed to the $100 rise in typical market asking rents per unit over the past three years.

Although most Sioux Falls apartment construction has occurred near the suburban edges, the downtown study area has seen substantial activity. The following map shows apartment projects completed post-2012 in the downtown study area – totaling 539 units (with the 179-unit Hidden Hills Apartments just blocks to the east).
Adding to this recent downtown housing boom are two major mixed-use redevelopments and a third, smaller, project currently under construction and at least two others in late planning stages.

- The four-building mixed-use Cherapa Place project underway east of the river and adjacent to the Railyard Flats (developer’s rendering shown at right) is expected to include 233 additional apartment units along with 12 luxury condominiums atop multistory office space, with retail, structured parking, and event space also in the mix.
Sioux Falls Downtown Plan: Market Analysis

- West of the river, just below Falls Park, is the Steel District project, another former industrial site being redeveloped as a commercial/residential mix. That project is currently adding 95 rental units together with 20 ownership attached units in the form of luxury lofts and condominiums, with additional housing envisioned for later project phases. Those residential components are being built alongside multistory office, hotel, and retail space (developer rendering shown above).

- Prescott Place is a 46-unit five-story apartment building near the southern edge of the downtown core, at 13^{th} Street on the west side of 2^{nd} Avenue. It is under construction and will feature 39 one-bedroom and 7 two-bedroom units.

- On the 1^{st} Avenue side of that same block is a planned project that should add 190 more rental units.

- Finally, east of the river on former rail/industrial land is the mixed-use Railyard project, still in the planning stage, with 225 units planned along with 50,000 square feet of office and retail space envisioned.

**Housing Prices**

A defining feature of the U.S. economy over the past five years has been the dramatic rise in housing costs, especially for single-family for-sale homes. The problem has been more pronounced in larger urban areas and desirable locales. The chart below shows median home prices for Sioux Falls, with two larger Midwest cities (Des Moines and Minneapolis) as comparisons, along with the U.S. as a whole. Since 2018, the median price home in Sioux Falls rose from $209,700 to $315,500 – an increase of 50 percent in just five years. This was on pace with Des Moines and considerable faster growth than Minneapolis, which grew by 29 percent over the same period. The median price grew by 45 percent for the U.S. as a whole.

Rents have grown rapidly, but not quite at the blistering pace as ownership housing, causing many to remain in rental housing longer than would normally be expected based on age and family status alone.
Figure 26: Median Home Price Trends, Sioux Falls and Comparison Areas, 2018-2022

![Graph showing median home price trends for Sioux Falls and comparison areas from 2018 to 2022.](image)

*Source: Redfin, and Leland Consulting Group*

The following chart shows the distribution of pricing for single family detached and attached (townhome/condo) homes in the Sioux Falls market. It is based on sales occurring in the first half of 2022 for homes built in 2019 or later.

Figure 27: Sale Price of Homes Built 2019 to April 2022, Sioux Falls Market

![Bar chart showing the distribution of new construction sales by price range for the Sioux Falls market.](image)

*Source: Redfin, as of May 2022*

As shown, townhomes accounted for a significant portion of sales in that period (42 percent) and generally represented the lower end of the price spectrum in the for-sale market. The high percentage of townhomes
(only two sales were for condominiums) bodes well for downtown, which will likely rely on apartments and single-family attached units as its main residential product offering.

The overall median price for this limited sample was just over $350,000, with the townhome median near $375,000 and detached median of approximately $425,000.

**Residential Demand**

Population growth is a key indicator and driver of demand for both residential and commercial development, and therefore, population forecasts are critical in estimating future demand. The official population forecasts for South Dakota counties have not been updated since the prior 2014 downtown plan. To estimate future residential demand, we combine projections from those most recent official forecasts with recent trend lines, permit activity, and employment growth to estimate future population growth. The pace of recent growth has exceeded what was anticipated in the 2014 study, so the table below reflects a blend of prior estimates and references to historical growth trends.

**Table 3. Sioux Falls Population, Historical and Projected, 2000 to 2045**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>127,900</td>
<td>144,600</td>
<td>158,200</td>
<td>173,300</td>
<td>195,850</td>
<td>216,000</td>
<td>238,000</td>
<td>260,000</td>
<td>283,000</td>
<td>306,000</td>
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<tr>
<td>annual rate</td>
<td>2.5%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>2.5%</td>
<td></td>
<td>2.0%</td>
<td>2.0%</td>
<td>1.8%</td>
<td>1.7%</td>
<td>1.60%</td>
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<tr>
<td>High</td>
<td>127,900</td>
<td>144,600</td>
<td>158,200</td>
<td>173,300</td>
<td>195,850</td>
<td>222,000</td>
<td>251,000</td>
<td>281,000</td>
<td>315,000</td>
<td>349,000</td>
</tr>
<tr>
<td>annual rate</td>
<td>2.5%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>2.5%</td>
<td></td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.3%</td>
<td>2.2%</td>
<td>2.10%</td>
</tr>
</tbody>
</table>

*Source: ESRI, U.S. Census, and City of Sioux Falls*

Developing a forecast of residential demand for downtown Sioux Falls involves multiple steps in estimation. These steps are described below and correspond to a series of summary tables that follow.

- Determine a reasonable competitive residential market area for the downtown study area. For this analysis, we use the City of Sioux Falls as the market area. Although downtown will probably compete more heavily with other central parts of Sioux Falls for prospective renters and buyers, a citywide market area allows for a more robust set of prediction data and would also pick up potential future competition from New Urbanist-style developments in more suburban locations.

- Allocate existing households across broad income categories and tenure (rent versus own) groupings. This allocation is driven by Census/ACS data and ESRI updates. Note that tendency to rent is assumed to be lower for each higher income bracket, resulting in an overall rate that matches the Census estimate of 62 percent owner and 38 percent renter.

- Apply reasonable capture rates (market shares) to reflect the likely proportion of citywide absorption/demand that downtown could likely attract.

Calculations of estimated residential demand are shown in the series of tables that follow. In the first table, the existing distribution of the 76,041 households currently in Sioux Falls are broken out by income based on census estimates. Then, annual growth rates are applied to all groups for the 10-year period under study.
Applying those growth rates annually over the course of 10 years yields 19,415 additional households by the end of the coming decade. There is then a small adjustment, multiplying this total by 1.05 to convert household growth to actual new unit need, preserving a healthy market vacancy rate and assuming a modest amount of second-home purchasing. That adjustment results in **total citywide 10-year unit demand of 20,386 units**.

### Table 4: Residential Demand Projection Summary, City of Sioux Falls Market Area

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Households 2021</th>
<th>Projected Annual Growth Rate</th>
<th>10-yr New Households</th>
<th>10-yr Unit Demand*</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than $50K</td>
<td>29,546</td>
<td>2.3%</td>
<td>7,544</td>
<td>7,921</td>
</tr>
<tr>
<td>$50K to $100K</td>
<td>25,268</td>
<td>2.3%</td>
<td>6,452</td>
<td>6,774</td>
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<tr>
<td>over $100K</td>
<td>21,227</td>
<td>2.3%</td>
<td>5,420</td>
<td>5,691</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>76,041</strong></td>
<td></td>
<td><strong>19,415</strong></td>
<td><strong>20,386</strong></td>
</tr>
</tbody>
</table>

*Source: Leland Consulting Group, with ESRI and U.S. Census Inputs*

Next, as shown in the following table, that total unit demand is allocated across rental and ownership product types, with ownership units further broken out into ownership attached (condo, townhome, plex, etc.), small lot single-family, and large lot single-family units, with proportions of each geared to roughly match recent construction activity, with an eye towards shifting demographics. The overall percent renter is expected to remain constant, as is average household size (virtually unchanged from 2010 to 2021 for the city).

### Table 5: Allocation of Total Projected 10-Year Unit Demand to Renters and Owners, City of Sioux Falls

<table>
<thead>
<tr>
<th>Income Group</th>
<th>10-yr Unit Demand*</th>
<th>% Renter</th>
<th>Rental Unit Demand</th>
<th>Ownership Unit Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than $50K</td>
<td>7,921</td>
<td>75%</td>
<td>5,658</td>
<td>1,886</td>
</tr>
<tr>
<td>$50K to $100K</td>
<td>6,774</td>
<td>20%</td>
<td>1,290</td>
<td>5,161</td>
</tr>
<tr>
<td>over $100K</td>
<td>5,691</td>
<td>7%</td>
<td>379</td>
<td>5,040</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20,386</strong></td>
<td><strong>38%</strong></td>
<td><strong>7,328</strong></td>
<td><strong>12,088</strong></td>
</tr>
</tbody>
</table>

Applying appropriate tenure (rent versus own) assumptions for each of three broad income categories yields estimated 10-year demand for 7,328 rental units and 12,088 ownership units, citywide.
Downtown Capture of Citywide Demand (10-year)

Finally, the tables in this section summarize the portion of the 10-year citywide demand potential that could be captured downtown across the income brackets and broad product types shown. Estimated capture rates (market share) are informed by historical performance and a number of assumptions, including the following:

For products with higher density, like rentals (apartments) and ownership attached (townhome, condo, rowhomes, plex), downtown should have relatively high capture rates. This is reflective of downtown’s role as a more compact, urbanized environment relative to suburban competition.

For single family detached, we assume minimal net new unit demand, largely in the form of new ADUs and scattered, opportunistic conversions – replacing single-family homes with multiplex structures.

Table 6: Breakout of 10-year Citywide Rental Unit Demand and Downtown Capture

<table>
<thead>
<tr>
<th>Citywide Rental Unit Demand</th>
<th>Ownership Unit Demand</th>
<th>Downtown Rental Capture Rate</th>
<th>Downtown Rental Unit Capture</th>
<th>Downtown Ownership Capture Rate</th>
<th>Downtown Ownership Unit Capture</th>
<th>Downtown Total Unit Capture</th>
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<tr>
<td>5,658</td>
<td>1,886</td>
<td>10%</td>
<td>15%</td>
<td>566</td>
<td>849</td>
<td>38</td>
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<tr>
<td>1,290</td>
<td>5,161</td>
<td>10%</td>
<td>15%</td>
<td>129</td>
<td>194</td>
<td>2%</td>
</tr>
<tr>
<td>379</td>
<td>5,040</td>
<td>10%</td>
<td>15%</td>
<td>38</td>
<td>57</td>
<td>2%</td>
</tr>
<tr>
<td>7,328</td>
<td>12,088</td>
<td></td>
<td></td>
<td>733</td>
<td>1,099</td>
<td>242</td>
</tr>
</tbody>
</table>

Source: Leland Consulting Group

Applying reasonable capture rate assumptions to rental unit demand would yield demand for approximately 733 to 1,099 new multifamily rental units and 242 to 484 new ownership attached units (loft, townhome, condo, rowhome).

Housing Development Prototypes

Most housing can be categorized within a set of “prototypes,” which are shown below (single-family residential is not included). The prototypes increase in scale and density moving from left to right. Parking is a key factor that affects housing density and financial feasibility. Typical types of parking are surface, tuck under, structured,
and below-grade structured. Surface parking is the least expensive and below-grade structured parking is the most expensive. Structured parking can add tens of thousands of dollars of construction cost per housing unit, which often means that only hot housing markets with high rents can accommodate higher-density housing types with structured parking. Construction materials also change as housing density increases. Townhomes, low-rise (garden) apartments, and low-rise apartments with tuck-under parking (urban garden apartments) are typically entirely wood-frame buildings; while wrap and mid-rise/podium structures require concrete construction for parking areas; in addition, steel is sometimes used instead of wood for the apartment areas. The construction complexity and specialization required for these building types also increases costs.

As analysis moves from the more general overall downtown plan to more site-specific studies, these prototypes, along with land value and construction cost estimates, can begin to better focus redevelopment targets on product types with the best prospects for developer financial feasibility – and help identify cases where financing gaps will likely exist that require a public-private partnership to achieve desired outcomes such as meeting workforce housing targets.

**Figure 28. Housing Development Prototypes**

![Housing Development Prototypes](image)

**Residential Market Conclusions**

Market demand for new residential has been exceptionally strong across Sioux Falls in recent years, driven by unusually high multifamily absorption.

For 2015 through the first half of 2022, the multifamily share of all units permitted increased to 55 percent, up from 38 percent historically.

Since 2014, 1,366 housing units have been built (or are currently under construction) within the downtown study area, including these major projects:

- Cascade Lofts (701 N. Phillips), 197 units, completed 2020
- First Avenue Partners (400 S. 1st Ave), 190 units, pending
- The Clark at Cherapa Place, 124 units, under construction
- Steel District residential, 115 units, under construction
Sioux Falls Downtown Plan: Market Analysis

- The Dakota at Cherapa Place, 109 units, under construction
- Third Avenue Lofts, 87 units, completed 2020
- Phillips Avenue Lofts, 86 units, completed 2014

The residential market, both in Sioux Falls and throughout the urban U.S., is characterized by high demand and insufficient supply production, resulting in low vacancies and spiraling home prices and rents.

Demand on the for-sale side is driven chiefly by family formation among Millennials finally entering the ownership stages of life, typically looking for suburban product. Demand for downtown-type housing comes from a combination of sources including downsizing Boomers and Gen Xers, and older Generation Z youth entering the apartment market (plus increasing numbers across the board now priced out of the ownership market).

Based on a 2.3-percent annual citywide growth rate projection (conservative relative to recent record years, along with relatively steady resident incomes and household sizes, Leland Consulting Group projects **attainable annual residential absorption of 100 to 160 units per year in the downtown study area** over the coming decade, representing a four to eight percent overall share of likely citywide demand.

- Product mix going forward should resemble recent and ongoing projects – all multifamily rentals or ownership attached product (townhomes, condos, rowhomes, lofts, etc.).
- Some limited ADU conversions and opportunistic plex redevelopment is likely for the existing single-family neighborhoods east of Weber Avenue. Such densification should respect existing neighborhood character and may need to be mitigated by increased bike/pedestrian facilities, pocket parks, and similar public amenities.
- The Railyard property represents the largest single redevelopment opportunity for residential in the study area, with potential for around 275 units.
Retail Market

As in most mid-sized cities in the U.S., Sioux Falls’ downtown retail represents a relatively small share of the overall metro market -- heavily focused on dining/drinking establishments and entertainment, with some limited specialty goods stores, personal services, and a few convenience-oriented stores. But, like other downtowns experiencing vigorous revitalization and re-introduction of substantial residential development, the study area is beginning to attract a somewhat more diverse retail offering.

Retail Supply Conditions

The figure below shows recent trends in retail vacancy and asking market rents over the past decade. Retail in Sioux Falls has the lowest vacancy rate of any commercial land use category. Although vacancy citywide has risen from 2.0 percent in 2011 to 3.0 percent as of early 2022, that rate is still considerably tighter than the national vacancy rate of approximately 4.7 percent (also April 2022).

Figure 29. Sioux Falls Retail Rent and Vacancy Trends, 2011-2022 (April)

This lack of vacancy has contributed to a steady rise in market rents, topping $15 per square foot per year in 2021 and continuing to rise since. The potential downside is some inefficiency around the lack of choice in store location and other space characteristics for retail tenants (especially for smaller independent sellers and restaurateurs with less access to investment capital). In contrast to other markets, however, Sioux Falls still represents an attractively low-cost location for start-up retail operations – with rents in the mid-$15s, versus a national average approaching $30.

The strong occupancy levels for retail were one driver for the surge in retail construction activity that peaked in 2018, but that has dropped off drastically after those deliveries – mostly in 2019. The surge in development occurred primarily outside of downtown, spread across dozens of small and mid-sized centers. The largest single development underway in 2018 was the 190,000 s.f. Fleet Farm completed west of the airport along I-29.
As shown below, that surge helped bring the metro retail inventory to nearly 15.4 million square feet in 2022, of which 13.8 million square feet are in Sioux Falls proper, and almost one million square feet are in the downtown study area.

**Figure 30. Greater Sioux Falls Retail Inventory and Construction Activity 2011-2022**

![Graph showing retail inventory and construction activity from 2011 to 2022.](image)

*Source: CoStar; and Leland Consulting Group*

CoStar reports that the City of Sioux Falls has 800 properties totaling 13.9 million square feet of retail space, with nearly one million square feet in the downtown study area. The map below shows the location and size of retail properties in the Sioux Falls area. Retail is heaviest along two major east-west arterials, the West 41st Street corridor, southwest of downtown, and the 12th Street/10th Street corridor roughly bisecting the city through downtown. The largest regional retail clusters are at the northeast quadrant of I-29 and W. 41st St. (Empire Mall area) and near Arrowhead and Veterans Parkways on the east side of the city.

The Empire Mall property has nearly 650,000 square feet of retail space within its main enclosed portion and over 1.1 million square feet including the Hy-Vee and all other outlying property within that superblock, making that development alone as large as the downtown study area in terms of retail inventory.
Qualitative Market Trends

The advent of widespread use of online shopping across almost all retail categories has caused a seismic shift in consumer behavior and developer attitudes towards brick-and-mortar retail. The growth of online retail has been especially challenging for retailers of commodity goods — basic needs items where price and convenience are at a premium and shoppers are less likely to shop extensively. Retailers selling products that can easily be ordered and shipped from Amazon (and other online retailers) face a challenging environment and must have a competitive advantage against online stores — whether that is the convenience, experience, customer service, or something else. Electronics, office supplies, and video stores are classic examples of commodity retailers, although many consumer goods within grocery stores (especially dry goods) and traditional department stores (such as basic apparel needs and small consumer durables) are also susceptible to Amazon-type competition.
The competitive disadvantages of traditional stores and products were highlighted during the Covid-19 pandemic, with a surge in online shopping that has had lingering effects on consumer habits. By contrast, experiential consumerism is an emerging trend in which retailers offering a special experience, or offering services that cannot be procured online, have the potential to thrive. A prime example is dining—as one retail guru has said, “you can’t eat the internet;” and you certainly cannot dine with family and friends on the internet. Therefore, food and beverage establishments have become a larger and larger part of the retail experience on both main streets and larger shopping centers. Another growing “retail” sector is healthcare. Small, neighborhood-scale providers are moving into both main street and retail center locations.

The following are among the more promising retail trends, as brick-and-mortar properties are finding ways to thrive in the face of on-line competition:

- Retail that offers a special experience
- Food/restaurants in general – especially with strong social or experiential atmosphere.
- “Fast casual,” e.g., Panera Bread, Chipotle
- Food halls, artisanal markets
- Food trucks in combination with experience-friendly physical space for eating/drinking
- Grocery, ranging from discount to organic, small format, and ethnic
- Medical users, e.g., walk-in urgent care clinics
- Apparel: Fast fashion, off-price, active sportswear
- Sporting goods and outdoor stores
- Fitness/health clubs

Downtown and Independent Retail

A downtown retail district, if done correctly and complemented by a mix of experience-friendly amenities and touches, is a particularly promising environment for overcoming retail competitive weaknesses against both online vendors and suburban big box stores. The look and feel of a historic downtown is truly an experience that cannot be replicated by online shopping or even by expensively-crafted new suburban retail environments.

The atmosphere inside the front door of any downtown shop or restaurant is critical to its success but largely outside the control of city governments to dictate. Beyond simply pursuing or incentivizing development deals, local governments (ideally, together with formal or informal cooperative business coalitions) need to ensure that there is continuity and synergy between the total street environment – including sidewalks, wayfinding/signage, parking, plantings, crosswalks, lighting, pedestrian/bike facilities, etc. – and the stores themselves.

The main retail and dining portion of Phillips Avenue, from roughly 9th to 13th Streets, is already a good case study in how to nurture (or at least not mess up) a desirable downtown retail environment. That stretch of downtown Sioux Falls, already endowed with excellent “bones” in the form of historic buildings and a pleasing, human-scale relationship between its streets, sidewalks, and largely two- to four-story storefronts, has been well supported by public infrastructure investment and planning.

Although not strictly prohibited through regulation, Phillips Avenue and other retail clusters downtown have remained largely free of national chain stores and restaurants, relying instead on mostly local, independent...
businesses – either one-off locations or one of a very small number of local or regional locations. For the most part, this strategy has helped to keep downtown Sioux Falls unique and regarded as a worthwhile destination by visitors and loyal locals.

One recent exception to the independents-only pattern has been the Duluth Trading Company store on Phillips Avenue. Despite its regional (Minnesota) roots, the workwear and outdoor-oriented outfitter has been a major national brand for many years now. So far, the store appears to have been a significant attractor of new customer foot traffic that might not otherwise have visited Phillips Avenue. Given the rather extreme current imbalance between independents versus chains downtown, it may be worth considering how that win-win approach could be carefully expanded to include a limited number of other national or regional chains, with the goal to expand the reach of hometown retailers by leveraging the reputation and recognition of select national tenants.

**Retail Demand**

Estimating demand for new retail in cities like Sioux Falls is challenging because of the uncommonly dominant role the city plays in the surrounding region. Although Sioux Falls technically lies within a four-county metropolitan statistical area (MSA), it is home to 75 percent of metro area residents and has just over 90 percent of all metro retail inventory. In fact, of the nearly 100 smaller towns within a 60-mile radius of Sioux Falls, only Brookings has more than one-tenth of the retail inventory (with 10.3 percent).

As a result of this outsized regional role, conventional measures of available market area retail demand, such as retail “leakage” (how much market area household spending “leaks” to stores outside the market area) are not particularly helpful when looking at Sioux Falls.

To illustrate, based on the number and income levels of households in the city of Sioux Falls, they should spend approximately $463 million annually on food at home (primarily grocery shopping). However, for the 12 months ending in June 2022, Sioux Falls food-at-home category stores had $607 million in sales. So, instead of leaking sales, Sioux Falls brings in around $144 million in “surplus” grocery sales, above and beyond what would be expected just from local residents. Other spending categories are similar, as shown in the graph below.

**Figure 32: Retail Gap Analysis, Select Categories, City of Sioux Falls**
Sioux Falls Downtown Plan: Market Analysis

Source: ESRI, Leland Consulting Group, City of Sioux Falls taxable sales for 2021/22

Although the total dollar amounts involved are lower than for groceries and dining, the sporting goods/hobby/books/music spending category has the most impressive surplus (or “draw”) factor, bringing in more than double the sales that would be expected from local household spending potential alone.

In the case of retail leakage, one can use the difference as evidence of unmet demand – arguing that a city (or other defined market area) ought to be able to recapture some of those sales dollars leaking to outside stores. A surplus, rather than indicating too much retail, suggests a category of retail strength, where an area already has a proven potential to draw in sales from non-local households. In such a case, demand should rise along with general growth in the broader region.

For the much smaller downtown study area, a leakage analysis is more difficult, as sales and spending power data are less reliable due to smaller sample size and mismatched census geographies (and confidentiality concerns with taxable sales data). Based on ESRI inputs, CoStar data on retail supply, and Leland Consulting Group estimates, downtown area retail and restaurant sales are even higher relative to downtown resident spending potential than is the case citywide. We estimate that downtown residents spend approximately $95 million across all retail and dining categories, while the downtown area brings in over $200 million in taxable sales. Realistically, most downtown resident spending occurs outside of downtown, but that spending is far outweighed by the volume of downtown spending coming from visitors and non-resident employees.

Even without leakage, however, retail demand can be expected to increase as long as the various customer segments already spending downtown grow. Retail development found in downtown Sioux Falls is shaped by the market segments it primarily serves. These can be broadly grouped into four customer segments:

- residents of downtown and its immediate vicinity,
- downtown employees (especially office workers),
- visitors from outside the metropolitan area, and
- occasional diners/shoppers from within metro Sioux Falls.

The following table relates expected growth in the first two categories over the coming years. Based on demand analysis for residential and office space discussed elsewhere in this report, we assume that approximately 1,500 new housing units and 1,000 new office workers will be added to the study area by the 2035 plan horizon.

### Table 7: Downtown Retail Demand Growth Projections

<table>
<thead>
<tr>
<th>Downtown retail customer segments</th>
<th>Current count</th>
<th>S.F. of retail supported per</th>
<th>Total DT retail supported</th>
<th>Share of current Downtown retail demand</th>
<th>10-yr growth factor</th>
<th>10-year total retail support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>3,500</td>
<td>80</td>
<td>280,000</td>
<td>29%</td>
<td>1.29</td>
<td>361,200</td>
</tr>
<tr>
<td>Employees</td>
<td>17,500</td>
<td>20</td>
<td>350,000</td>
<td>36%</td>
<td>1.06</td>
<td>371,000</td>
</tr>
<tr>
<td>Visitors</td>
<td>330,000</td>
<td>34%</td>
<td>330,000</td>
<td>34%</td>
<td>1.25</td>
<td>412,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>960,000</td>
<td>34%</td>
<td>1.25</td>
<td>1,144,700</td>
</tr>
</tbody>
</table>

Source: ESRI (for retail spending per household), ULI (office worker spending patterns, adjusted by LCG); assuming 1,500 added households and 1,000 added jobs to downtown by 2035.
Sioux Falls Downtown Plan: Market Analysis

Based on these major sources of growing support, we estimate that downtown retail demand could grow by around 15,000 to 22,000 s.f. annually.

For example, in the downtown context, this level of annual demand could translate in a given year into:

- five new restaurants in the range of 2,500 to 3,500 s.f. each (15,000 s.f. total),
- a small clothing boutique (2,000 s.f.)
- a coffee shop (2,000 s.f.)
- an optometrist (3,000 s.f.)

In another year, demand could take the form of one small format independent grocer (18,000 s.f.).

Retail development activity rarely takes place at a slow and steady rate, so there may also be three years of no activity followed by a single where a 30,000 s.f. specialized sporting goods store and a 20,000 s.f. dining/entertainment cluster (like the one in the ground floor of the Cascade project) go in at the same time.

**Retail Market Conclusions**

- Despite the ever-increasing share of Amazon and related online retail, downtown Sioux Falls has managed to add almost 60,000 s.f. of new retail space since 2014, with another 140,000 s.f. under construction.
- The 20,000 square feet of ground floor dining and shops beneath the Cascade Lofts project on the north end of Phillips Avenue is the largest recent retail completion to date (2020).
- The downtown area has no measurable spending “leakage” in any major store category – generally drawing most of its customer base from shoppers and diners living outside the study area.
- With no real leakage and such an active pipeline due for completion over the near term, LCG projects a tapering off of retail demand over the coming decade.
- The addition of new residential rooftops will add modest levels of new demand for commodity goods like grocery and drugstores, with enough demand generated to support a small format grocer (10,000-15,000 s.f.) and potentially another drugstore of similar size.
- Other future retail demand will continue in the form of dining/drinking and specialty shops appealing to the growing downtown office worker and visitor populations.
- Combining a variety of methodologies, LCG estimates annual retail and dining demand ranging from 15,000 to 22,000 square feet, coming from added households and office workers.
**Hospitality Market**

The figure below shows the geographic distribution of the 5,600 hotel rooms in the Sioux Falls market, with recent construction in bold, and planned/proposed activity in a dotted red outline. Note that, with the exception of downtown hotels, almost all inventory is strung along I-29 from the I-229 intersection to the airport.

**Figure 33: Sioux Falls Area Hospitality Inventory**

Source: CoStar, and Leland Consulting Group

As shown in the figure below, Sioux Falls has 1,851 branded hotel rooms at the city’s most popular price scale point, *Upper Midscale*, of which 361 are found downtown. While the citywide market includes rooms at lower scale levels, none are found in the downtown study area.
The 216-room Canopy Collection hotel planned for the Steel District downtown is a Hilton-branded property at the Upper Upscale level, which would give downtown close to one-half of that market in the city. The only hotel industry scale category higher is Luxury (e.g.) JW Marriott, Grand Hyatt, Ritz Carlton, W) which is typically found only in larger urban areas or resort communities.

The Independent scale category includes any non-chain brands and can include a variety of different price scales. The 90-room Hotel on Phillips redevelopment is downtown’s lone entry in that category (and would likely be an Upscale or Upper Upscale property if part of a branded franchise).

The primary demand drivers for hotel development include:

- Tourism and tourist destinations,
- Entertainment activities,
- Business activity (number of jobs and businesses), and
- Business conferences and conventions.

This report does not include a separate lodging market demand estimate (usually a specialized market analysis conducted specific to a particular proposed product). Given the quantity of recent and planned hotel rooms in the downtown study area and uncertainties related to the overall economy, it may be wise to observe the performance of the newly-completed downtown entries and the Hilton Canopy project currently underway before pursuing major new hotel projects.
Office Market

Office Supply Conditions

With the Steel District office tower and The Bancorp Building at Cherapa Place both underway, 2022 has been a record year for office construction in Sioux Falls, topping 300,000 square feet – all in the downtown core. Since 2011, Greater Sioux Falls office space has grown from 9.7 million to over 10.6 million square feet, of which 3.1 million is downtown.

Figure 35. Sioux Falls Office Inventory and Construction Activity, 2011-2022

Source: CoStar

Figure 36. Greater Sioux Falls Office Rent and Vacancy Trends, 2011-2022

Source: CoStar

Vacancy Rates in the Sioux Falls office market have been somewhat volatile, but remain generally in the range considered healthy for that land use nationally. As of April 2022, the rate across the metro was back below five percent, with average market rents approaching $20 per square foot per year.
Sioux Falls Downtown Plan: Market Analysis

Omitting some owner-occupied space, local commercial brokers Bender Commercial shows a significantly higher vacancy rate for the overall market, at 9.1 percent as of mid-year 2022, with just two percent vacancy for Class A downtown space.

The figure below shows the geographic distribution of the standing and proposed office inventory in the Sioux Falls market, with recent construction in bold, and planned/proposed activity in a dotted red outline.

*Figure 37. Sioux Falls Area Office Development*

*Source: CoStar, Leland Consulting Group.*
Office Demand

Office demand is a function of growth in industries that need office space. For this analysis, we take a blended growth rate based on both citywide historical growth and State-produced 10-year employment projections by industry for the Sioux Falls metropolitan area. The forward-looking official forecasts are generally more conservative than recent local growth rates. Growth is allowed to vary across industry groups resulting in a blended overall rate of 1.5 percent annually.

For each industry grouping, we make assumptions about the percentage of new employment growth likely to need office space. Most industry sectors have very little need for office space, which typically comes most from growth in the Finance and Professional Services sectors, along with some smaller portion of Healthcare and “Other Services.” Healthcare jobs are typically spread across hospitals and care facilities (including rehabilitation, nursing care, and some mental health operations). About 35 percent of overall healthcare jobs require some form of medical office space.

We then apply an assumed square footage per office job and calibrate the above assumptions against existing office inventory already in the market. These calculations result in estimated demand of approximately 150,000 s.f. of new office space that would be added to the 980,000 s.f. of inventory currently in the market.

Table 8: Estimating Sioux Falls Employment Growth by Industry

<table>
<thead>
<tr>
<th>Industry Group</th>
<th>2009</th>
<th>2019</th>
<th>Historical growth rate</th>
<th>MSA forecast growth rate</th>
<th>Blended Growth Rate Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>19,408</td>
<td>29,749</td>
<td>4.4%</td>
<td>1.2%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Retail</td>
<td>14,930</td>
<td>18,208</td>
<td>2.0%</td>
<td>0.6%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Hospitality &amp; Leisure</td>
<td>11,666</td>
<td>14,140</td>
<td>1.9%</td>
<td>1.1%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Finance &amp; Prof. Svcs</td>
<td>14,152</td>
<td>13,278</td>
<td>-0.6%</td>
<td>0.9%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Wholesale, Logistics</td>
<td>9,664</td>
<td>11,230</td>
<td>1.5%</td>
<td>1.0%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9,038</td>
<td>9,904</td>
<td>0.9%</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Other Services &amp; Support</td>
<td>7,174</td>
<td>8,862</td>
<td>2.1%</td>
<td>0.7%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Education</td>
<td>6,039</td>
<td>6,542</td>
<td>0.8%</td>
<td>0.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Construction &amp; Utilities</td>
<td>4,335</td>
<td>5,911</td>
<td>3.1%</td>
<td>1.0%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Public Administration</td>
<td>2,902</td>
<td>3,413</td>
<td>1.6%</td>
<td>0.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total</td>
<td>99,308</td>
<td>121,237</td>
<td>2.0%</td>
<td>0.9%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

We then adjust to 2022 jobs by industry group estimates, add projected job growth at the blended rates, and apply assumptions of the percentage of employees requiring office space in each industry (calibrated against the CoStar inventory market total).
Table 9: Sioux Falls Office Demand Growth and Estimated Downtown Capture

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>31,816</td>
<td>8,184</td>
<td>35%</td>
<td>325</td>
<td>3,619,000</td>
<td>40,000</td>
<td>838,000</td>
</tr>
<tr>
<td>Retail</td>
<td>18,782</td>
<td>2,218</td>
<td>3%</td>
<td>325</td>
<td>183,000</td>
<td>21,000</td>
<td>19,000</td>
</tr>
<tr>
<td>Hospitality &amp; Leisure</td>
<td>14,721</td>
<td>2,279</td>
<td>3%</td>
<td>325</td>
<td>144,000</td>
<td>17,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Finance &amp; Prof. Svcs</td>
<td>13,429</td>
<td>571</td>
<td>97%</td>
<td>325</td>
<td>4,234,000</td>
<td>14,000</td>
<td>162,000</td>
</tr>
<tr>
<td>Wholesale, Logistics</td>
<td>11,621</td>
<td>1,379</td>
<td>7%</td>
<td>325</td>
<td>264,000</td>
<td>13,000</td>
<td>28,000</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10,147</td>
<td>853</td>
<td>5%</td>
<td>325</td>
<td>165,000</td>
<td>11,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Other Services &amp; Support</td>
<td>9,188</td>
<td>812</td>
<td>25%</td>
<td>325</td>
<td>747,000</td>
<td>10,000</td>
<td>59,000</td>
</tr>
<tr>
<td>Education</td>
<td>6,689</td>
<td>311</td>
<td>5%</td>
<td>325</td>
<td>109,000</td>
<td>7,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Construction &amp; Utilities</td>
<td>6,223</td>
<td>777</td>
<td>7%</td>
<td>325</td>
<td>142,000</td>
<td>7,000</td>
<td>16,000</td>
</tr>
<tr>
<td>Public Administration</td>
<td>3,503</td>
<td>497</td>
<td>15%</td>
<td>325</td>
<td>171,000</td>
<td>4,000</td>
<td>22,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>126,595</strong></td>
<td><strong>17,405</strong></td>
<td></td>
<td></td>
<td><strong>9,778,000</strong></td>
<td><strong>144,000</strong></td>
<td><strong>1,181,000</strong></td>
</tr>
</tbody>
</table>

2022 CoStar Control Total 9,800,000

Downtown Area Capture (s.f.)
- **low**: 20.0% 236,000
- **high**: 30.0% 354,000

Source: CoStar, LEHD-On The Map, State of South Dakota LMI, and Leland Consulting Group

These calculations result in estimated demand of approximately 1.2 million square feet of new office space that would be added to the 9.8 million square feet of inventory currently in the market. Of this, we estimate that downtown could capture between 20 and 30 percent, for a ten-year total of 236,000 to 354,000 square feet (in addition to the approximately 300,000 square feet currently underway).

**Office Market Conclusions**

- Office development in downtown Sioux Falls has excellent momentum, with over 300,000 square feet of new space coming online at the Cherapa Place and Steel District projects currently underway.
- Recent major completions include the 76,000 s.f. First Premier Bank building at 500 S. Minnesota, finished in 2021, and the 58,000 s.f. (public sector) City Center offices at 231 N. Dakota.
- Class A office vacancy is extremely low at approximately 4.2 percent in suburban Sioux Falls and approaching 2.0 percent in the downtown area. Overall office vacancy across Sioux Falls is on the tight side of healthy, at nine percent (compared to just over 15 percent nationally). High demand and low vacancy are driving rising rents across all product types.
Based on an analysis of historical and projected employment growth rates across industry groupings in Sioux Falls, along with assumptions of office space usage by industry, LCG projects average annual office demand for downtown of 24,000 to 35,000 s.f. – representing a 20 to 30 percent share of citywide demand.

- Successful lease-up of the Cherapa Place and Steel District (with limited negative absorption elsewhere) will be an important bellwether for downtown office development prospects going forward.
- A challenge facing the office market nationally is the open question of how many post-COVID office workers will continue with to work-from-home arrangements. During current conditions of extremely low national unemployment, employees have generally had sufficient negotiating power to maintain at least a flex arrangement, but that could change under even a mild recession scenario.

**Pace of Growth: Recent Actual vs. 2014 Targets**

The following table and graphic below summarizes actual on-the-ground private sector development activity downtown since the 2014 analysis.

Including projects under construction as of this report, residential development has outpaced previous projections, averaging just over 170 units per year. Actual annual office development of 62,000 square feet per year falls within the (fairly aggressive) range projected in 2014. Retail development is near the high level projected.

**Table 10: Recent Downtown Development Activity Compared to 2014 Forecast**

<table>
<thead>
<tr>
<th></th>
<th>2025 Downtown Plan (Arland 2014 Study)</th>
<th>Actual Development Activity since 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20-year Projection</td>
<td>Annual Absorption</td>
</tr>
<tr>
<td>Residential (units)</td>
<td>low</td>
<td>1,900</td>
</tr>
<tr>
<td></td>
<td>high</td>
<td>3,200</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office (sf)</td>
<td>low</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>
|                      | high                   | 1,600,000          | 80,000                            | 493,000| 61,625
| Retail (sf)          | low                    | 190,000            | 9,500                             |        |
|                      | high                   | 470,000            | 23,500                            | 187,000| 23,375
| Lodging (rooms)      | not specified          |                    | 306                               | 38     |
Finally, the following map highlights four major properties with significant redevelopment potential and that could serve as catalysts for new investment. The past wave of downtown growth took place largely on major vacant or underutilized redevelopment sites like Cherapa Place and the Steel District. These sites provided a relatively blank slate for developers to work with and were large enough that a master plan could efficiently mix uses and build shared parking. The pool of such large sites is almost completely depleted, meaning that future development in downtown Sioux Falls will rely on a greater extent on smaller, incremental infill projects. A few of the most likely candidates for new investment are discussed below. Aside from these four catalyst sites, new development is expected to take place through smaller infill development. This could include redevelopment of older obsolete buildings or construction on surface parking lots. Because these sites will be smaller, it is impossible to pinpoint which specific properties might redevelop. That will depend on market conditions (e.g.,
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existing users on the site, land values, attainable rents, cost of construction) and the current situation of each property owner (e.g., investment objectives, existing cash flow from the site, etc.).

- **Wells Fargo Block property**: a 2.6-acre site with residential, office, or mixed-use potential. Not currently on the market, as the bank and offices are operational, but building is outdated and largely vacant. With its adjacent parking structure, this is one of the largest underutilized properties in the heart of downtown. Redevelopment could take the form of several alternatives:
  - **Rehabilitation**: A thorough renovation of the office building and parking structure to bring them up to modern Class A office standards to attract a major employer or multiple small office employers. Competitive Class A offices emphasize tenant amenities such as on-site cafes, bicycle parking, fitness facilities, roof decks and lounges, and shared conferencing centers. With the slate of new inventory from office buildings at Cherapa Place and the Steel District, older buildings will increasingly need to reinvent themselves as office tenants “trade up” to nicer and newer spaces.
  - **Adaptive reuse**: Another option is to convert the building to another use, most likely residential, but possibly a hotel. Older office buildings with shallower floorplates are good candidates for residential conversions, where more light can penetrate into units.
  - **Full redevelopment**: Depending on the financial feasibility of either of the above, there may not be a financially viable use for the existing building, in which case full demolition of the site may be appropriate. This would result in a large and extremely well located development site that could be master planned in a similar manner to Cherapa Place and the Steel District.

- **Mall Avenue Parking Ramp** property: a 1.1-acre site with potential for multiple land use types. Facility was built with structural capacity for multistory construction above, so need to find right user to redesign and complete. Given the market demand discussed earlier, the most likely use would be for residential development. But depending on developer expertise and market conditions, a hotel or office building (especially if a major user was able to prelease the space) could also be possible. A carefully crafted solicitation should be developed in order to receive proposals from developers. The solicitation should clearly articulate the City’s expectations for design, street-level activation, and parking requirements while maximizing the developer’s flexibility in building use.

- **Railyard** property: 4.2-acre site with preliminary planning studies complete, but no projects underway. Excellent potential for mixed-use residential/commercial redevelopment. This City-owned parcel is currently planned for redevelopment and the City has begun developer outreach. Likely uses would be similar to the railyard project to the north, including a mix of housing, small office, and commercial uses.

- **Social Services Building** property: currently operational as public sector building, but underutilized given location and potential value. 7.2-acre. Potential for a potential municipal complex or mixed-use development. This is the single largest potential redevelopment site in the study area. Its current use as state offices leaves much of the site underutilized, yet it is very close to downtown and could accommodate a significant master-planned project. Any project here would require improvements to the pedestrian connectivity to downtown so that whatever use takes place can connect with and support the restaurants, retail, and hotels elsewhere downtown.
Figure 39: Development Opportunity/Analysis Sites

- Wells Fargo Bank property (2.8 ac)
- Railyard property (4.2 ac)
- Mall Ave Ramp property (1.1 ac)
- SD Social Services property (7.2 ac)