Real Estate RESEARCH
C O N S U L T A N T S

M E M O R A N D U M

TO: Paul Mogush, Principal City Planner
Binoy Panicker, AICP, Senior City Planner/Urban Designer
City of Minneapolis, Community Planning & Economic Development

FROM: Matt Taylor, AICP, Vice President and Chief Operating Officer
Tom Kohler, Senior Vice President
Real Estate Research Consultants, Inc.

DATE: November 16, 2009

RE: **Chicago Avenue Market Assessment and Basic Plan Platform**
(RERC 29-117)

For transmission by email to:
Paul.mogush@ci.minneapolis.mn.us
Binoy.panicker@ci.minneapolis.mn.us
Hard copy will not follow unless requested

The following market assessment of the Chicago Avenue Corridor and vicinity is based on primary research conducted by RERC in the field, analysis of public agency and third party private vendor data, and interviews conducted with market participants and key stakeholders in the study area during September and October 2009. A discussion of the overall metro market, sector submarkets, the market study area surrounding Chicago Avenue, and the Chicago Avenue corridor from Interstate 94 and 35W on the north, south to the Midtown Greenway, follows. It is accompanied by a market outlook and basic plan platform that supports a discussion of potential opportunities in the corridor. *This document will be followed by a separate RERC document that outlines an economic development platform in which specific opportunities are identified along with corresponding actions for implementation.*

Metro Minneapolis Market Conditions

The metro market has historically experienced slow to moderate growth in population and employment which has supported deliberate incremental additions to building inventory. According to the 2008 U.S. Census Bureau American Community Survey, the 13-county Minneapolis-St. Paul-Bloomington, MN-WI metropolitan statistical area (MSA) had an estimated 3.23 million people. During the current economic cycle, the local market has reflected the larger national market declines but with generally more moderate movement and less volatile swings in market metrics. That said, despite expectations for slowing job losses in the coming months, significant cumulative job losses in the metro area will have occurred in 2009 affecting space demand for all major real estate sectors into the foreseeable future. The following summarizes the state of the office, retail, multifamily apartment and industrial sectors in the metro area at the end of the second quarter of 2009.

Office

The total office inventory in the metro market is approximately 164 million square feet and the market has experienced average annual additions to inventory of approximately 2.8 million square feet; presumably some of this added office space is occupied by companies new to the area as well as existing office user expansions or upgrades. Roughly 85% of the office space in the market is multi-tenanted and 15% of the inventory is in single tenant buildings. During the quarter, the metro office market experienced positive absorption of space leading to a decrease in the overall vacancy rate to just more than 10%, a vacancy rate that remains favorable relative to the average vacancy rate in the national market. Under more normal economic conditions, the market would begin to see serious movement to increase supply. There are distinctions, however, between the urban and suburban markets. Of note in 2009, Target signed a lease renewal for 930,000 square feet at its headquarters complex in the CBD. Even with the Target lease renewal, the vacancy rate in the CBD increased to just more than 12% while vacancy in the suburban markets decreased to just more than 9%. Metro asking rental rates increased slightly in the quarter to approximately $16.50 per square foot for available office space in all classes but remain below prevailing national office rental rates. There was 733,000 square feet of multi-tenant office space under construction at the end of the quarter with no speculative space to be delivered in the near term. Sales transactions of office space were down compared to 2008 and sales prices were also lower on a dollar per square foot basis.

There are approximately 16 million square feet of medical office space in the metro market and approximately 160,000 square feet of space has come online during the past four quarters. Metro occupancy is approximately 94% and asking rents for medical office have increased year over year with rents now in the $20 per square foot range. Currently, planned medical office projects average about 40,000 square feet each and leases signed in the metro area during the quarter ranged from 7,000 to 29,000 square feet.

<u>Retail</u>

The total retail inventory in the metro market is approximately 187 million square feet and the market has experienced average annual additions to inventory of approximately 2.3 million square feet. During the quarter, the metro retail market experienced small to relatively flat absorption of space leading to an unchanged vacancy rate of approximately 5.5%. Metro asking rental rates for all types of retail space decreased during the quarter to under $14 per square foot reflecting the general decline in retail sales activity, downsizing and renegotiated leases. There was 237,000 square feet of primarily multi-tenant retail space under construction at the end of the quarter. Sales transactions of retail space were down compared to 2008 and sales prices were also lower on a dollar per square foot basis. Retail leases signed in the metro area during the quarter generally ranged from 10,000 to 13,000 square feet.

<u>Residential Apartments</u>

Following the addition of more than 1,000 apartment units in 2008, developers are on pace to complete approximately 650 units in 2009, a number that is approximately 5% below the 5-year historical average for the metro market. Conditions in the apartment market are anticipated to continue to soften due to the struggling labor market weakening demand, competition from shadow rentals and greater housing affordability. Within the market, renters are anticipated to double-up (roommates) to control costs and also to move up in housing quality to capture falling rents at properties they previously could not afford; vacancy rate increases in more modest product may result. Metro apartment vacancy is increasing and is now more than 5% with “asking” and “effective” rents expected to fall due to overall economic conditions. There are approximately 900 apartment units under construction in the metro area and condo construction remains elevated as roughly 1,500 for-sale units are being built. The planning pipeline in the metro area has grown to include approximately 4,500 apartment units which could increase competition among properties in the coming years.

Industrial

The total industrial inventory in the metro market is approximately 336 million square feet and the market has experienced average annual additions to inventory of approximately 4 million square feet; 70% of the industrial space in the market is multi-tenant. During the quarter, the metro industrial market experienced small, positive absorption of space resulting in an unchanged vacancy rate of just more than 7%. Of note, the ratio of warehouse to flex space in the market is approximately 80/20 and warehouse absorption was stronger than flex space absorption. Leases signed in the metro area during the quarter ranged from 157,000 to 300,000 square feet. Metro asking rental rates decreased in the quarter to just more than $6 per square foot. There was 150,000 square feet of industrial space under construction at the end of the quarter. Sales transactions of industrial space were down compared to 2008 and sales prices were also lower on a dollar per square foot basis.

Implications

Both the size of the inventory and its spatial distribution offer insight into the study area's basic market opportunities.

Overall, the rate of new development in the region is measured. Office, retail, and industrial space combined have averaged a little more than 9,000,000 square feet per year, including the period of rapid real estate growth that did much to accelerate the recession at a national level. Industrial uses represent about half of that total demand. It may also be worth noting that space specifically identified as medical office space represents only about 10% of the total inventory.

All of these land uses now have vacancy rates that discourage substantial construction in the short term. Obviously, some areas of the region are better positioned than others on a relative basis as opportunities present themselves. As a result, the moderate velocity of development activity that will occur over the next few years is most likely to stay in proximity to existing concentrations or to locate in demonstrably supportive environments.

Submarket conditions

Submarkets of the metro market are specific geographic boundaries that serve to delineate a core group of buildings that are competitive with each other and constitute a generally accepted primary competitive set. Submarkets are building type/sector specific (e.g. office, retail, etc.) with distinct boundaries dependent on different factors relevant to each building type. Submarkets are non-overlapping, contiguous geographic designations having a cumulative sum that matches the boundaries of the overall Market within which they are located. The focus here is on the commercial submarkets for office and retail but not industrial uses as they are not zoned in the study area other than as existing development.

Data sources point to the relevant office submarket for our work to be generally defined by the I-394 corridor. This includes geographic areas to the south and to the west of the CBD bordered by the Mississippi River to the east. There are approximately 24 million square feet in the submarket, representing about 15% of the total metro office market. This submarket currently has about 6% vacancy as of the end of the 2nd quarter of 2009 and asking rental rates just above $17 per square foot; this compares favorably to the overall metro market in terms of vacancy and rental rates. Two new office buildings were delivered to the submarket in the 2nd quarter, accounting for approximately 500,000 square feet of additional inventory. Seven additional buildings are under construction and represent another 600,000 square feet that will be added to the inventory. Overall, rental rates have been increasing for this area over the past four years but vacancy has edged upward since late 2007. Leasing activity in 2009 appears strong in this submarket when compared to the other submarkets with nearly 25% of the metro area's top office leases signed within the submarket; submarket leasing activity has ranged in size from 6,000 to 75,000 square feet.

Data sources point to the relevant retail submarket for our work to be generally defined as the Calhoun area. This includes geographic areas to the immediate south and to the immediate west of the CBD bordered by the Mississippi River to the east and Highway 100 South to the west. There are approximately 11.5 million square feet in the submarket, representing about 6% of the total metro retail market. This submarket currently has about 4% vacancy as of the end of the 2nd quarter of 2009 and asking rental rates just under $17 per square foot; this compares favorably to the overall metro market in terms of vacancy and rental rates. No new retail buildings were delivered to the submarket in the 2nd quarter and there are no retail buildings currently under construction. Overall, average asking rental rates have declined nearly 9% in 2009 and vacancy rates in the submarket have increased steadily over the past four years. Leasing activity in 2009 appears stable in this submarket when compared to the other submarkets with nearly 13% of the metro area's top retail leases signed within the submarket; submarket leasing activity has ranged in size from 4,000 to 14,000 square feet.

<u>Implications</u>
The study area's dynamics are affected by the general performance of its market characteristics in the context of many competing regional locations. For general planning purposes, we can ascertain that about 15% of the larger regional office and about 6% of the relevant retail market define the dimensions of any broad opportunities likely to exist, that is, their reasonable fair share, other things equal. Because retail and residential development often occur in tandem, housing activity might capture a similar share of the larger market. In reality, the *adjusted* fair share is likely much smaller based on recent concentrations of activity along key road segments, general location criteria, linkages to other supportive investments, site availability, appropriate land use designations, and other criteria which together act to disperse or attract certain kinds of development. These and similar matter are discussed further below.

The Study Area and Chicago Avenue Corridor

The study area for RERC's market research and analyses generally includes the four neighborhoods of East Phillips, Midtown Phillips, Phillips West and Ventura Village (herein referred to as the study area); this area is generally bounded by I-94 and I-35W to the north, I-35W to the west, Lake Street to the south and Hiawatha Avenue to the east.

The following map presents the study area as described.

Source: City of Minneapolis, GIS Files August 2006.

RERC analyzed demographic trends to define the study area's socioeconomic context and compare its characteristics to the larger City of Minneapolis (the city) and Hennepin County (the county). Five-year projections (2009 to 2014) for attribute data were used to analyze near-term trends. <u>Please note, the future data included here indicate general trending and are in no way predictive of actual outcomes; the 2014 Claritas population and housing projections are a current industry standard used by developers/retailers considering trade areas for new development or expansion and therefore are included as one perspective in our analysis</u>. The population in the study area has historically grown faster than the city and county during the last three decades, and for the near-term, all three areas are anticipated to have relatively flat population growth. The resident population within the study area is significantly more diverse than the city or county which is consistent with the area's role as a gateway neighborhood for immigrant communities. Average household size at just more than 3 persons per household is significantly larger in the study area than in the city or county.

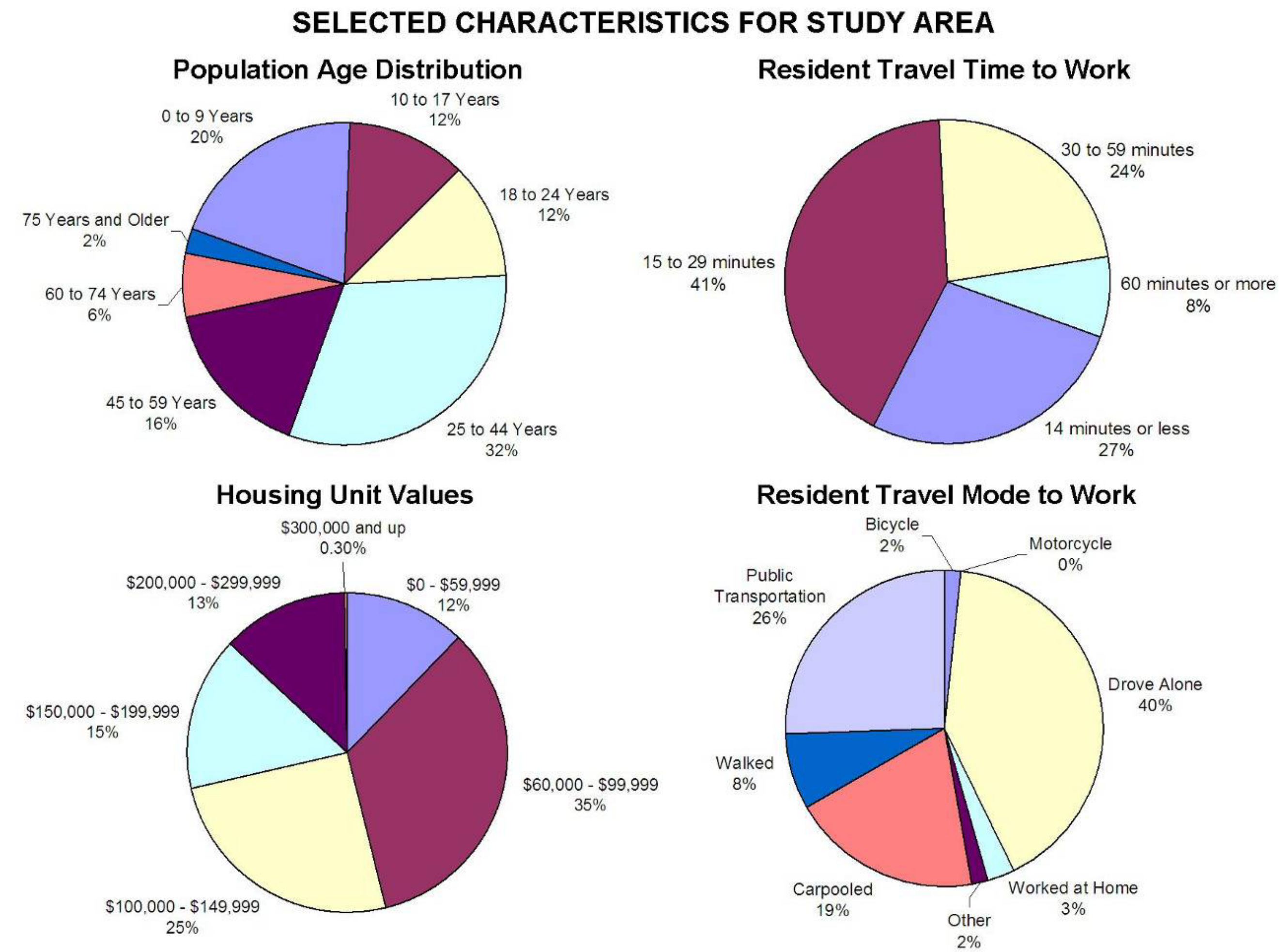
The study area has lower household income and higher unemployment than the city or county with more than 3/4 of the households having incomes of $49,000 or less in 2009. Nearly 80% of the housing units are renter occupied in the study area compared to 50% and 33% for the city and county respectively. This high percentage of renters likely reflects not only lower household incomes but also the transitional nature of the area as a gateway community. Median home values are significantly lower than the city and county although average annual growth in home values has been fairly consistent among the three areas. Much of the housing stock is older in the study area with more than 80% of all housing built prior to 1980; this is consistent with the established, "built-out" condition of the study area and its proximity to the central business district. The following presents select demographic data and trends analysis for the study area.

DEMOGRAPHIC TRENDS ANALYSIS				
		Study Area	**Minneapolis**	**Hennepin Cty**
Population	2000 Census-based	19,805	382,618	1,116,200
	2009 Estimated	19,914	379,319	1,143,181
	2014 Projected	20,093	379,788	1,161,344
	Historical Annual Growth 2000 to 2009	0.1%	-0.1%	0.3%
	Projected Annual Growth 2009 to 2014	0.2%	0.02%	0.3%
Households	2000 Census-based	6,333	162,352	456,129
	2009 Estimated	6,239	161,862	468,130
	2014 Projected	6,223	162,491	475,839
	Historical Annual Growth 2000 to 2009	-0.2%	0.0%	0.3%
	Projected Annual Growth 2009 to 2014	-0.1%	0.1%	0.3%
	Average Household Size	3.2	2.3	2.4
Household Income	2009 $0 - $49,000	77.3%	54.7%	40.5%
	$50,000 - $74,999	12.3%	18.5%	19.8%
	$75,000 - $99,999	5.2%	10.8%	14.0%
	$100,000 - $149,999	3.7%	10.1%	15.2%
	$150,000 or more	1.5%	5.9%	10.5%
	Median Household Income	$ 27,093	$ 45,370	$ 61,476
	Average Household Income	$ 36,605	$ 62,988	$ 83,041
	2014 $0 - $49,000	74.6%	51.3%	37.2%
	$50,000 - $74,999	12.4%	18.5%	19.0%
	$75,000 - $99,999	6.3%	11.2%	14.0%
	$100,000 - $149,999	4.8%	11.6%	16.8%
	$150,000 or more	1.9%	7.4%	12.9%
	Median Household Income	$ 29,262	$ 48,689	$ 66,444
	Average Household Income	$ 39,913	$ 68,418	$ 90,363
	Projected Annual Growth in Median Y 2009-2014	1.6%	1.5%	1.6%
	Projected Annual Growth in Average Y 2009-2014	1.8%	1.7%	1.8%
Housing Units	2009 Total Housing Units	7,001	173,910	493,169
	Total Occupied Housing Units	6,239	161,862	468,130
	% Owner	21.3%	50.5%	66.6%
	% Renter	78.7%	49.5%	33.4%
	2014 Total Housing Units	6,982	174,601	501,291
	Total Occupied Housing Units	6,223	162,491	475,839
	% Owner	21.1%	50.2%	66.8%
	% Renter	78.9%	49.8%	33.2%
	Projected Annual Growth of Total Occ. HU 2009-2014	-0.1%	0.1%	0.3%
Median Home Value	2000 Census-based	$ 68,829	$ 113,695	$ 141,081
	2009 Estimated	$ 107,390	$ 182,754	$ 219,753
	2014 Projected	$ 119,094	$ 202,162	$ 241,773
	Historical Annual Growth 2000 to 2009	6.2%	6.7%	6.2%
	Projected Annual Growth 2009 to 2014	2.2%	2.1%	2.0%
Homes by Year Built	1999 to March 2009	9.3%	7.5%	9.8%
	1990 to 1998	3.1%	1.8%	7.6%
	1980 to 1989	6.8%	5.9%	14.0%
	1960 to 1979	25.4%	17.9%	28.3%
	1940 to 1959	15.7%	19.9%	20.8%
	Prior to 1939	39.8%	47.0%	19.6%

Source: Claritas 2009; Real Estate Research Consultants, Inc.

With a median age of 30.7 years, the resident population of the study area is younger than the city and county populations, which have median ages of 35.2 and 38.0 years respectively. Of the total number of housing units located in the study area, more than 70% are valued at less than $150,000 and only 4 units in the area are valued at $300,000 and up, suggesting other factors such as rental-owner relationships, crime, age, condition, relative desirability, etc. have likely contributed to suppression of property values given what expectations would be for an in-town, established neighborhood. In comparison, housing units valued at less than $150,000 account for only 34% of the city's stock and just 19% of the county's total residential units.

In terms of reaching places of employment, 68% of the employed resident population of the study area can commute to work in 29 minutes or less while 77% of the city's working residents and 73% of the county's employed population can travel to work within the same timeframe. Notably, more than a quarter of the working resident population in the study area uses public transportation to travel to work while less than 15% of employed city residents and 7% of county residents chose this same mode. Further, the study area also experienced the highest levels of walking and carpooling as travel modes. This data set and stakeholder interviews suggest few study area residents work nearby even though there are numerous jobs in the study area.



Source: RERC, Claritas 2009

Market assessment: observed conditions and community assets

RERC's market assessment focuses on what future development may be supportable within a Lifesciences corridor (the corridor) designated by the City of Minneapolis. Specifically, RERC analyzed those properties bordering the east and west sides of Chicago Avenue (.5 to 1 block off Chicago Avenue) from Interstate 94 on the north to the Midtown Greenway on the south. The properties in the corridor have a variety of land uses ranging from single family residential to institutional, commercial and office. Zoning in the corridor primarily includes the Office Residence Districts and Commercial Districts zoning designations.

Fieldwork conducted in September 2009 revealed a mix of disparate land uses throughout the study area and corridor. Established east-west commercial corridors were observed along Franklin Avenue and Lake Street and major institutional uses and single family/duplex residences front Chicago Avenue. It was not uncommon to observe low density residences proximate high rise apartment towers, medical facilities and parking ramps. The Phillips West neighborhood had the greatest dispersion of non-similar uses/densities/intensities of the four neighborhoods whereas the other three neighborhoods appeared to have generally intact established residential blocks with separate outboard commercial corridors.

The study area contains both estate-type Victorian homes, with deep setbacks (100 feet +/-) along Park Avenue, converted to multi-tenant residences and institutional/office uses, as well as more modest housing product that ranges from single family to multi-tenanted single housing structures commonly found in older, in-town residential neighborhoods. Multifamily apartment projects observed included highrise and mid-rise senior living facilities in Phillips West, 3-4 story apartment buildings developed by non-profit housing developers in the Franklin Avenue corridor, highrise public housing apartment towers at the far western edge of the study area, and a recently foreclosed 4-story market-rate condominium project with ground floor retail at the southeast corner of Chicago Avenue and 24th Street.

One public elementary school exists in the study area and it is complemented by several charter schools. Parks were also observed in the study area, each having varying degrees of deferred maintenance, programming and amenities. Public and social service facilities were also identified in the study area, and according to the stated opinions of residents and businesses interviewed, these service facilities are disproportionately concentrated in the study area relative to the larger City. Some limited neighborhood convenience retail was observed, predominately at the intersections of Chicago with Franklin Avenue and Lake Street. Limited small, independent restaurant/convenience store development was identified along Chicago Avenue.

The historical character of the study area is an attractive attribute. Many of the improved residential and religious structures in the study area date to the early 20th Century and post World War era, providing a great range of architectural character and variety. Established religious facilities serve as gathering points in the community and residents believe neighborhood identities center around community parks.

The architecture combined with the history and events of the area provide a reference and context for future development.



The area has historically been a gateway neighborhood for immigrant communities relocating to the metro area and this is a history that continues today. With these communities comes greater diversity in peoples, religions, cultures, traditions, etc. While this diversity is an asset, it can and does present challenges for future planning and maintaining the historical context of the area. The needs of both the immigrant communities and those resident families living on modest incomes have presented challenges to the original low density nature of the neighborhood, creating increasing need for more affordable housing options in multifamily arrangements and social services to provide stabilizing influences in the study area. Planning and delivery of such services remains challenging as numerous languages and dialects are spoken by area residents, making basic communication difficult at best. Religious and cultural orientations that are more family-centric rather than neighborhood-focused can also contribute to a divergence at times of priorities related to community amenities and needs; this can in turn directly impact planning initiatives and associated outcomes for the area.

Major developments currently underway in the study area almost exclusively include medical institutional investments or new social services facilities.

Recent construction activity includes the Children's Hospital campus expansion which included the 2009 opening of a new 141,000 square foot Children's Specialty Center and an approximate 700-car parking ramp as well as an ongoing expansion that includes enhanced operating rooms and a new emergency department, neonatal intensive care unit and cardiovascular center. The hospital's total investment will be approximately $220 million but this amount includes converting semi-private rooms to private rooms at the hospital as well as expansions.


Other than this institutional investment, no other commercial or residential construction activity was observed. A number of residential listings were observed in the study area although stakeholders familiar with recent sales activity indicated land values had declined and sales of existing buildings had softened during the current economic cycle. Agency disinvestment has occurred in the area including discontinuation of activities of the Boys and Girls Club. In addition, Resource Inc., a social service agency that has operated in the study area for 50 years, has decided to locate its new training center and training programs for about 1,000 trainees outside the study area in 2010; this represents a lost investment in the area of approximately $3 million. Resource Inc. does plan to invest approximately $7 million to renovate three of its existing owned buildings that front Chicago Avenue to create a more unified campus.

A significant portion of Chicago Avenue is currently under construction to reconfigure the avenue to a 2-lane bi-directional facility plus one lane of on-street parking in each direction.

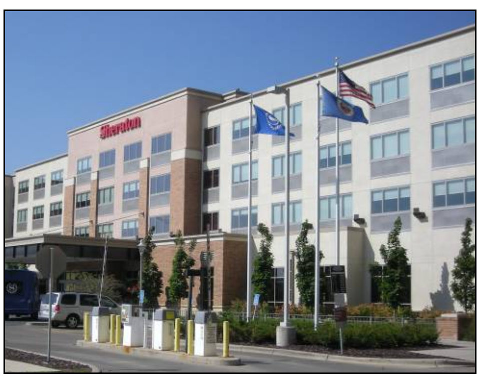
A future, longer-term streetcar alignment on Chicago Avenue is planned by the City/local transportation agency, and if such streetcar service materializes, this alternative transportation mode would reinforce and stabilize market values in the area and likely support greater density/intensity of development along the alignment. **Today, the land economics along the corridor support lower intensity development** but case analyses in other national markets indicate **fixed transit alignments improve land values and drive greater intensity of use.** This suggests the existing 1- to 2-story residential and commercial product will likely experience improved land values that support redevelopment in the 3- to 4-story product range.

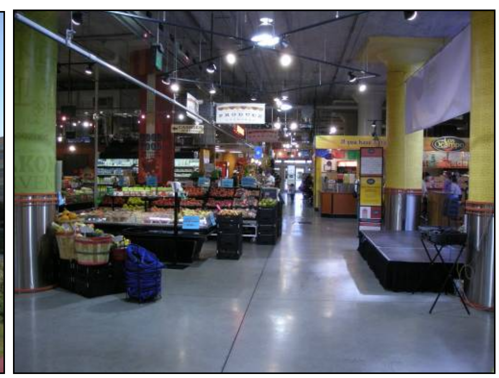
The prevailing scale of new or recent residential development in the study area appears to concentrate around multifamily product, generally on the order of 30 to 50 units per development. According to Hope Community, a local non-profit housing developer, a future multifamily residential project is planned as the fourth and largest phase of the Franklin Portland Gateway Project and represents an investment of $25 million which will include 150 dwelling units. This scale would be unusual for the area (and for the Gateway Project to date) and would rely on tax credits and other subsidies/grants to support the project which is planned to be 50% tax credit/affordable units and 50% market rate units. Previously completed phases of the gateway project have included 30, 40 and 49-unit buildings.



Rendering of Gateway Phase IV courtesy of UrbanWorks Architecture LLC; Gateway illustration courtesy of Cunningham Group

Non-medical, commercial activity has been limited and on a small scale, generally focused on Franklin Avenue or Lake Street. A newer Sheraton Hotel primarily serves the medical institutions in the corridor, and the Midtown Exchange is by far the most significant commercial redevelopment project within the broader area context. The Exchange is home to the Allina Commons offices and the Midtown Global Market which offers a mix of fast casual, quick service and table service dining options along with an international retail bazaar. The Midtown Exchange is located on the Midtown Greenway which is a grade-separated, rails-to-trails project that provides an east-west bikeway connection through the city. The Greenway has led to a significant increase in bike ridership as an effective alternative for commuting to work.



The study area is home to several large anchor medical institutions including Abbott Northwestern Hospital, Children's Hospital and Phillips Eye Institute. Combined, these facilities employ approximately 8,100 staff and also have approximately 2,300 affiliated physicians. Each of these medical institutions are located along or proximate Chicago Avenue, however the campuses generally orient inward and have significant parking ramps that face out to the surrounding neighborhood.

Abbott Northwestern's current master plan includes approximately $256 million in identified projects to remodel and expand the facility vertically in order to ensure a 30-year life cycle for its facilities. In addition, a $115 million Women and Babies hospital with 65 beds and bassinettes is planned as a joint venture with Children's Hospital. Abbott Northwestern currently has 627 beds although the hospital is licensed for 952 beds. Children's Hospital has 183 beds and 50%

of the beds are critical care beds. Both Abbott Northwestern and Children's Hospitals lease space in medical office buildings in the corridor.

Phillips Eye Institute is the third largest eye specialty hospital in terms of patient volume in the United States. Dedicated to the diagnosis and treatment of eye diseases and disorders, Phillips Eye Institute draws patients from a five state region.

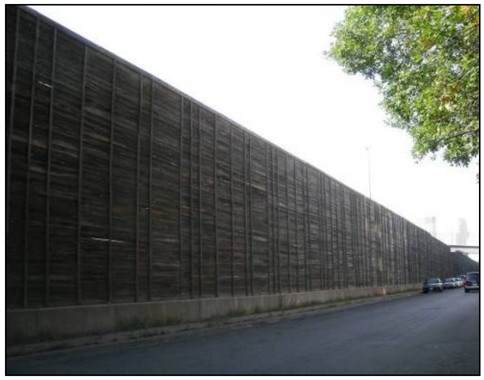
The study area is also home to the Wells Fargo corporate campus as well as the Allina Commons offices at the Midtown Exchange which have an additional combined 5,000 employees, bringing the total employment at these five employers to more than 13,000 people.

The study area's close proximity to the Central Business District is a key attribute that can positively affect the long term value and sustainability of the area. As travel commute times lengthen due to additional demand on metro infrastructure, in-town neighborhoods have historically benefited. This is a result of an increase in new residents working in the CBD investing in close-in property as the original benefit of larger suburban homes at lower prices no longer outweighs shorter commute times. Similarly, as the CBD continues to be reinforced as the business and cultural hub of the metro area, people desiring urban amenities the city offers at more affordable prices will look to surrounding in-town neighborhoods for their principal residential investments.

Barriers and challenges to investment

A major challenge to investment in the area is one of perception. Study area residents and employees as well as residents outside the area perceive the Phillips Neighborhood as unsafe and having rampant crime. While there has been a history of crime activity in the neighborhood which peaked in the 1990's, current crime activity levels have significantly improved over past levels. Crime reports for the four neighborhoods in the study area for January through August of 2009 indicate approximately 6.4% of all reported crime within the City of Minneapolis occurred in the study area and one of the 12 homicides in the city was reported in the study area. These statistics indicate the four neighborhoods in the study area range from the 10^{th} to the 27^{th} highest ranked of the 87 city neighborhoods in terms of total crimes reported. While crime still exists in the study area today, reported incidences have declined significantly during the last 15 years and the strong continuing perception the area is one of the least safe neighborhoods in the City appears overstated given the actual crime statistics.

Major interstate access to sites in the study area is constrained with limited access ramps to I-94 and I-35W. Large sound walls and culverts along the interstate system further visually and physically separate the study area from surrounding development areas, predominately along the study area's western and northern boundaries.



Serving the needs of the diverse resident groups in the study area are numerous non-profit organizations and social service agencies. While these groups provide an asset to the area by providing resources and assistance to those having distinct needs, many neighborhood residents have expressed resentment over the locating of such organizations and agencies within the study area. They feel the number and type of organizations and agencies are disproportionately directed to the Phillips neighborhood. Several of the non-profit groups have developed residential projects in the study area that use tax credits/grants to provide affordable housing in the range of 30-50% of area median income (AMI) for rental projects and 80-115% of AMI for ownership projects.

While meeting an important segment of residential housing demand, the majority of new housing product delivered has been priced below market due to their funding requirements and consequently few stand-alone market rate housing projects exist in the study area. One market rate condominium project, the Minneapolis Grand, developed at the southeast corner of Chicago Avenue and 24th Street, went into foreclosure before being remarketed by a bank. The project has a large amount of ground floor commercial space that fronts secondary streets and only one tenant, a pharmacy, currently occupies space there. The virtual absence of market rate projects presents a challenge for investment by developers who need to provide financial lenders well-documented analyses that indicate stability in rental rates, healthy unit absorption rates and comparable successful projects. Going forward, investment in market rate housing product will remain dependent on the quality of area amenities such as schools and parks, transportation access to employment centers, and neighborhood safety.

Regarding commercial office and retail development, some of the drivers for site selection and investment in these market sectors include availability of nearby skilled workforce, site access and visibility, and co-location with like or complementary uses. Depending on the industry, the study area’s workforce may or may not be an asset to attract investment. Medical office and related healthcare uses appear the most competitive for attracting investment in the study area given the critical mass and skilled employee population already in the area.

A significant challenge to new medical development investment remains the limited number of potential sites within the corridor and the neighborhoods’ resistance to further encroachment by these types of uses. These factors make it difficult to assemble or identify development sites for significant medical facilities or related uses. It is important to note the corridor competes with the medical/biosciences cluster at the University of Minnesota, logistically and financially, for what might be the obvious complementary or desirable uses targeted for this corridor. Designated the Biomedical Discovery District, the new $292 million research park at the University of Minnesota will be home to facilities that focus not only on research but applied research and moving that research into patient care. The University's talent pool of students, academics, and research grants further reinforce complementary uses choosing to locate in the Discovery District. For these reasons, the Lifesciences Corridor is at a competitive disadvantage given the investment momentum and critical mass forming at the University.

The study area's dominant north-south corridors and east-west connections such as the 26th and 28th Streets one-way pairs promote high capacity pass-thru traffic that contributes little to the area's economic and market vitality. Further, pedestrian access across Park and Portland Avenues and 26th and 28th Streets is strongly compromised, further constraining resident mobility and disconnecting the fabric of the neighborhood. The major east-west corridors of Lake Street and Franklin Avenue have become concentrations for retail and services, and new investment in these uses traditionally co-locates with existing retail and service centers to capture the synergy already present in terms of customer base and shopping patterns, access and visibility. National retailers and restaurants require high traffic counts and minimum frontages on commercial corridors when selecting sites; these criteria, in addition to limited site availability for outparcel development, make investment in contiguous retail and services challenging in the corridor. To address these challenges to investment, both the local resident households as well as the employment center work population must be considered when analyzing demand for market-based retail and services development. Future development in the corridor, certainly in the near term, is likely to be occupied by local, independent operators while the national brand operators continue to reinforce the existing east-west commercial corridors.

Although these challenges and barriers to investment exist, the study area's history and proximity to downtown, medical base, historic building inventory, and network of social providers offer foundation on which future activity can be planned even if the near-term outlook is not optimistic.

Market Outlook

Overall, the immediate market outlook is not favorable for development in the study area and corridor. The area has experienced some visible disinvestment that is not being offset by the larger initiatives sponsored by the key medical institutions which, rather than expanding, are reevaluating and repositioning their health care missions. Despite the intense concentration of hospital-based and medical-related employment, the study area has not captured a share of the regional development commensurate with the value of the health industry's physical plant. There are many reasons but, in our opinion, the area has simply not been able to compete because there are limited sites, neighborhood resistance to intrusion, lack of quality amenities, inadequate east-west access which, together with other issues, makes other areas *more* attractive for development, certainly in the near-term.

In the near-term (1-5 years), the study area market is likely one of correction and stabilization. Given national, state, metro and study area trends observed during the current economic cycle, the need for stabilizing existing commercial building and housing unit inventories with new tenants/occupants to increase occupancy and rental rates will remain a priority before additions to market inventory are feasible.

In the mid-term (6-10 years), organic growth in demand for medical and commercial office, retail, restaurant and services space is anticipated to be incremental but modest given population and employment growth near or within existing concentrations of competitive product elsewhere. The outlook for new hotel room demand in the study area beyond that which is currently provided by the Sheraton Hotel is not favorable given overall lack of demand, trends in hospital suite design that allow patient rooms to better accommodate family members on-site, and shorter hospital stays.

Conversations with stakeholders identify the study area as a zone for lifesciences investments but, as conditions seem to indicate, these expectations for the foreseeable future do not align with the environment and resources needed to support this objective. For the moment, the most obvious location to attract these kinds of activities is proximate the University of Minnesota in the Biomedical Discovery District where the social, capital, and physical resources are better matched to similar goals. Demographic trends are anticipated to generally drive commercial office demand to the I-394 and I-494 corridors, Minneapolis CBD and suburban St. Paul submarkets which account for about 70% of the existing metro inventory. Retail, restaurant and services demand is anticipated to generally follow existing retail concentrations in the Rosedale, Southdale, Ridgedale and Calhoun submarkets which account for about 30% of the existing metro inventory. Residential demand will likely be driven to expanding and emerging suburban markets and near-town neighborhoods such as the Uptown-Calhoun area that provide superior neighborhood amenities and proximity to the urban core.

Medical Office and Medically-related Support Facilities

The Minnesota lifesciences and bio-business industry will continue to grow and expand fueled by the aging population's need for life science products, the skilled and educated workforce, the network of high quality medical institutions, development initiatives at the University of Minnesota and supportive local governments. Overall growth in the lifesciences industry may be impacted in the near-term due to the slowdown in the general economy and the instability in the credit markets which will likely make raising venture capital funds for medical office buildings in the public and private markets more difficult.

The currently known capital plans of the hospitals within the corridor do not consider a need for additional office space, and the limited number of hospital beds suggests that future staff or physician demands will not encourage substantial related investments by third parties. **While some peripheral support activities--testing laboratories, storage facilities, smaller clinics, compounding pharmacies and similar uses--are reasonably expected, they will not together change the area's character.**

In the near-term, planned and pending medical office space vacancies by the anchor medical institutions currently occupying the privately-owned medical office buildings in the corridor will require these buildings to go through a significant re-lease-up period that may take several years based on the amount of vacated space anticipated.

In the mid-term, incremental demand for medical office space in the corridor is anticipated in conjunction with normal operations, renovations and relocations at the anchor medical institutions. This incremental demand will likely present a challenge for developers and landlords to assemble enough tenants to justify the substantial capital investment and financing requirements for larger medical office buildings similar to those existing in the corridor. New medical office space in the mid- to long-term may be supplied more economically through adaptively reusing/expanding existing improved buildings in the corridor where possible. **There may be an opportunity to attract and capture a significant portion of the anchor medical institutions' back-of-house space demand in the corridor if single digit rents or similar cheaper cost bases could be offered**. The institutions have stated preferences for consolidating these functions (e.g. accounting, call centers, information technology, and foundation work) proximate their main campuses to minimize travel times, logistical coordination, etc. These relocated functions may support demand for office/flex space on the order of 150,000 square feet or more. In the regional market, the University of Minnesota and the Biomedical Discovery District will remain a competitive concentration of medical office space and future planned investments in the District will likely direct a larger portion of future demand to the University area.

<u>Retail, Restaurant and Service-related Office</u>
Existing retail, restaurant and services space inventory in the corridor appears to lag RERC's estimated current and near-term household demand; however, recent market declines in retail and restaurant sales and reduced service needs will likely hinder financing for businesses to expand operations and open new locations to answer this unmet demand in the near-term. To determine existing and near-term demand for retail, restaurant and services space in the corridor, RERC used its proprietary retail, restaurant and services models employing relevant market data and observed market conditions to determine supportable demand for each type of use.

RERC's retail and restaurant models are gravity models that address retail and restaurant choices and spatial concentrations of spending. The models were calibrated based on the most recent economic census data for the Minneapolis metro area. The models generate the amount and the nature of retail and restaurant space supportable within a given trade area based upon the number of households and the average household's effective buying income at a given point in time. While the location and general nature of the study area is not favorable for traditional office development, service-related office uses are likely appropriate for the site. These types of uses are usually located in a retail space environment and generally include banks, dry cleaners, small medical office, etc. RERC's services model employs a methodology for estimating service space demand by incorporating population growth, employment, and the number of establishments for different service facility types, all within a specific physical construct.

Using these proprietary models, RERC determined overall market study area demand (household and employment center) and corresponding 'within the corridor' demand likely to be captured using the households within the study area and a pro-rated full time equivalent expenditure by employees at the corridor's anchor medical institutions. The following tables summarize the supportable demand identified through RERC's modeling and analyses. The first table presents the total supportable demand through 2014 in square feet for the entire market study area and indicates what portion of total demand is contributed by area resident households versus employment center demand.

MARKET STUDY AREA SUPPORTABLE DEMAND 2014 (in square feet)									
	Household Demand			Employment Center Demand			Total Supportable Demand		
Retail									
Grocery Store	37,000	-	46,000	6,000	-	7,000	43,000	-	53,000
Convenience Goods	35,000	-	43,000	5,000	-	7,000	40,000	-	50,000
Shopper Goods	223,000	-	273,000	34,000	-	42,000	257,000	-	315,000
Subtotal	*295,000*	-	*362,000*	*45,000*	-	*56,000*	*340,000*	-	*418,000*
Restaurants									
Full Service Restaurants	19,000	-	23,000	3,000	-	4,000	22,000	-	27,000
Limited Service Restaurants	17,000	-	21,000	3,000	-	3,000	20,000	-	24,000
Specialty Food & Drinking Places	5,000	-	6,000	1,000	-	1,000	6,000	-	7,000
Subtotal	*41,000*	-	*50,000*	*7,000*	-	*8,000*	*48,000*	-	*58,000*
Services	597,000	-	730,000	39,000	-	47,000	636,000	-	777,000
Total	**933,000**	**-**	**1,142,000**	**91,000**	**-**	**111,000**	**1,024,000**	**-**	**1,253,000**

Source: Real Estate Research Consultants, Inc. (RERC); Census of Retail Trade; Dollars and Cents of Shopping Centers; Sales & Marketing Management, Survey of Buying Power; Claritas 2009

To estimate the amount of market study area demand that could be captured within the corridor, regional and community shopping center demand was assumed to be allocated outside the corridor due to its site selection criteria including physical site requirements, required vehicle trip exposure, transportation access, and co-locations among others. The following table presents the total supportable demand through 2014 in terms of square feet that are estimated to be captured within the corridor from the entire market study area and indicates what portion of total demand is contributed by area resident households versus employees at Abbott Northwestern, Children's Hospital and Phillips Eye Institute. The demand analysis employs a fair share allocation method to distribute future demand among existing geographic concentrations of retail, restaurant and service space in the market study area.

SUPPORTABLE DEMAND WITHIN CORRIDOR 2014 (in square feet)									
	Household Demand			Employment Center Demand			Total Supportable Demand		
Retail									
Grocery Store	6,000	-	7,000	3,000	-	3,000	9,000	-	10,000
Convenience Goods	9,000	-	11,000	3,000	-	4,000	12,000	-	15,000
Shopper Goods	0	-	0	0	-	0	0	-	0
Subtotal	*15,000*	-	*18,000*	*6,000*		*7,000*	*21,000*		*25,000*
Restaurants									
Full Service Restaurants	0	-	0	1,000	-	1,000	1,000	-	1,000
Limited Service Restaurants	4,000	-	5,000	1,000	-	1,000	5,000	-	6,000
Specialty Food & Drinking Places	1,000	-	1,000	0	-	0	1,000	-	1,000
Subtotal	*5,000*	-	*6,000*	*2,000*		*2,000*	*7,000*		*8,000*
Services	46,000	-	56,000	4,000	-	5,000	50,000	-	61,000
Total	**66,000**	**-**	**80,000**	**12,000**	**-**	**14,000**	**78,000**	**-**	**94,000**

Source: Real Estate Research Consultants, Inc. (RERC); Census of Retail Trade; Dollars and Cents of Shopping Centers; Sales & Marketing Management, Survey of Buying Power; Claritas 2009

Given the existing on-site cafeterias, cafes, credit unions, day care and pharmacies at the anchor medical institutions, the supportable demand associated with the medical employment center (12,000 – 14,000 SF) appears to be in general equilibrium with the existing supply of inventory through the 2014 timeframe.

However, resident household demand (66,000 – 80,000 SF) appears to exceed existing supply in the corridor. Based on the existing corridor inventory of retail, restaurant and services space identified through property appraiser parcel data, **roughly 25,000 to 40,000 square feet of unmet retail, restaurant and services space demand exists in the corridor through the 2014 timeframe.** Given the financial challenges and lack of business expansion in the near-term, much of the undersupplied demand is likely to be accommodated in new space in the mid-term timeframe with the exception of vacant space already in the market that will likely offer discounted rental rates to grow occupancy levels. One specific opportunity might include the Minneapolis Grand where a majority of its 27,000 square feet of ground floor commercial space remains vacant following a series of bankruptcy filings and foreclosures. As the project stabilizes and residential units become occupied, this ground floor retail space may become more attractive to businesses starting to consider a location in the corridor—attracting credit worthy tenants to finance build out of the shell space in the near-term will remain a challenge. Of note, not all of the retail space at this development is properly positioned for retail space given its orientation to secondary streets.

Based on RERC's analyses using the retail-restaurant-services models, **those tenant types having the greatest resident household demand and additive employment center demand through 2014**, and which are not already *sufficiently* represented in the corridor, **include:**

- Convenience store
- Limited service, fast casual restaurant (e.g. Chipotle, Zaxby's, Jimmy John's)
- Coffee shop
- Bank (full or limited service)
- Insurance and real estate offices
- Business support (e.g. FedEx/Kinkos, UPS Store)
- Outpatient care center (urgent care, walk-in clinic)
- Small day care (in addition to YWCA center)
- Laundry and garment services
- Barber shop/salon

<u>Residential</u>

In the near-term, the outlook for residential uses in the study area and corridor responds to the current market saturation of rental product and overall housing vacancy level. In 2009, the estimated occupancy of all housing in the study area is approximately 89%; this compares to 93% and 95% for the city and county respectively. Housing inventory in an area is generally considered stabilized at 95% occupancy such that additions to supply can easily be supported. Given historical housing deliveries and absorption in the study area over the past decade, we anticipate **it could take 4 to 5 years to stabilize rents and values of the existing inventory and therefore no significant housing additions are anticipated in the near-term.** During the period, general housing affordability in the study area should be preserved for residents in the 30-60% of area median income (AMI) range; however, product offerings for the workforce at 80-120% of AMI will likely remain noticeably absent.

In the mid-term, more affordable housing options will continue to be sought in the study area as new immigrants to the metro area follow their predecessors. Non-profit residential development will be most realistic near the end of the near-term/beginning of the mid-term once existing inventory has found equilibrium. **Housing additions may take the form of small 30-50 unit or possibly larger multi-phase developments that leverage tax credit/grant monies to deliver more affordable rents/sale prices. Workforce housing and market rate product in the study area will remain difficult at best to support in the mid-term as employment levels are projected to be initially flat and then experience only small growth.** New household formations and corresponding housing demand will follow employment trends and workforce and market-rate household demand will flow to other more accessible and amenitized neighborhoods in the metro area until such time needed community investments in schools, parks and safety are made in the study area. The Midtown Greenway stands as one exception and aims to attract bike-oriented residential development to its borders. This development area, however, will likely follow the build out of other areas along the Greenway that have additional amenities and attractive location factors and therefore the Greenway will likely be of greater significance in the mid- to long-terms. **In the longer term, workforce and market rate multifamily residential development on the blocks immediately east of Chicago Avenue and across from Peavey Park may come to fruition as an outcome of the public and institutional catalytic projects identified for the corridor in the short and mid-terms.** These redevelopment projects will rely strongly on private sector investment and private assembly of the land necessary to support projects having densities in the 50-60 units per acre range; the future streetcar alignment on Chicago Avenue will further support these private developments. Over the past several decades, the study area's housing inventory has had a general profile of about 80% rental and 20% ownership. This distribution is unlikely to change significantly in the foreseeable future absent implementation of specific programs to promote greater home ownership in the area and delivery of more attainable ownership housing product.

Basic Plan Platform

RERC analyzed property appraiser parcel data to determine the underlying capacity of the property in the corridor to establish context for how the existing land uses and zoning within the corridor respond to the foreseeable market conditions. **In effect, no commercial vacant property exists in the corridor that could accommodate the types and scale of development anticipated**. While individual vacant parcels exist, they are not generally contiguous, lack visibility and do not typically front Chicago Avenue.

There are blocks in the corridor where future redevelopment could provide substantial capacity for lifesciences and medical activities. For example, the two residential blocks along Chicago Avenue and immediately west of the Abbott Northwestern campus are currently zoned for approximately 700,000 square feet or more of commercial/institutional uses; alternately, these same blocks could accommodate roughly 400 residential units under existing zoning. While this is not necessarily a recommendation to redevelop these blocks, it does illustrate the underlying capacity by right which already exists in the corridor. Additional capacity exists on the Children's Hospital property just south of the new Children's Specialty Center where potentially up to 300,000 additional square feet might be developed under current zoning. Other redevelopment blocks may exist in the corridor as well. In addition to these blocks, **opportunities likely exist for reuse of existing buildings for purposes more directly related to the lifesciences and medical nature of the corridor**.

Overall, **anticipated future capacity needs for property in the corridor based on the near- and mid-term market outlook, and possibly the longer term as well, appear to be satisfied by existing land use and zoning regulations that provide adequate entitlement. However, the form and scale the existing capacity in the corridor takes presents opportunities and challenges for reuse and redevelopment to create attractive sites for lifesciences and medical activities. Therefore, zoning must provide the flexibility to accommodate changing market conditions and development parameters long-term.**

Potential Opportunities

In a region of modest overall growth, the study area is likely to show limited, if any, growth based on prevailing patterns and expectations. Without intervention, there is a likelihood that the study area will remain economically disadvantaged compared to the city and the county with decreasing rates of homeownership and declining property values.

These less than favorable conditions, in aggregate, are not favorable to supporting new market activity but, by themselves, should not be interpreted to mean an absence of opportunities. Rather **opportunities have to be carefully advanced on a case by case basis within a broader strategic plan for the area, and they are likely to require incentives to underwrite cost and risk that may not exist elsewhere in the region**. It is apparent, for example, based on the commuting patterns that there is a misalignment between the immediately adjacent employment base and the area's residents, whatever the underlying cause. By inference, it can also be conjectured the substantial working population in the area's medical facilities do not live nearby, again whatever the reason. The former situation speaks to a need or opportunity for economic alignment and the latter to a need or opportunity to generate new housing. Whether or not these opportunities can be leveraged is the challenge.

To the degree new development should occur or be encouraged within the study area, there is an implicit premise this same development has been or will be extricated from another location, possibly where it is more suitable or contextually appropriate for many reasons. Under such circumstances discussions–centering on the promotion of areas within the city where new development may otherwise not occur--assume a political as well as a strategic character.

The market assessment and outlook presented here employs an organic trending of metro growth and existing development patterns that have emerged in the 2000's. **The estimated supportable demand for the various real estate sectors could be positively influenced by an enhanced regulatory and market framework created by new economic development policy, land use and transportation policies, and community reinvestment and redevelopment initiatives.** RERC's follow-on analysis and strategic assessment of specific opportunities in each of these areas (documented separately) identifies actions necessary to create this enhanced framework for the corridor's future. Some of these specific concepts are centered on opportunities for:

- **adaptive reuse** of existing improved buildings and infrastructure,
- **in-fill development** to promote quality urban design and enhance property values,
- **directed private, institutional and public investment** in neighborhood infrastructure, amenities and programs,
- **leveraging underutilized assets** already in place, and
- **repositioning failed market assets** to promote more desirable market dynamics in the corridor and study area at large.

Real Estate RESEARCH
CONSULTANTS

MEMORANDUM

TO: Paul Mogush, Principal City Planner
Binoy Panicker, AICP, Senior City Planner/Urban Designer
City of Minneapolis, Community Planning & Economic Development

FROM: Tom Kohler, Senior Vice President
Matt Taylor, AICP, Vice President and Chief Operating Officer
Real Estate Research Consultants, Inc.

DATE: November 16, 2009

RE: **Chicago Avenue Economic Development Platform**
(RERC 29-117)

For transmission by email to:
Paul.mogush@ci.minneapolis.mn.us
Binoy.panicker@ci.minneapolis.mn.us
Hard copy will not follow unless requested

The following serves as a companion document to RERC's Chicago Avenue Market Assessment and Basic Plan Platform document dated October 21, 2009. That document [RERC's Market Assessment] reveals the need for a series of actions and a strategic direction to generate momentum for a renewed Chicago Avenue economic development environment. In general, the research implications indicate the following for the corridor:

- Under current conditions and policies, minimal development activity is anticipated in the near term (next 5 years).
- Outside "economic intervention" is needed as a stimulus to support catalyst opportunities to achieve desired results.
- A misalignment exists between the existing employment base and the lack of numbers of jobs being filled by neighborhood residents.
- An opportunity exists to capture an increased segment of those employees commuting into the area if a greater residential product mix were available along with an improved image of the area.
- The hospitals' refocus on internal operations, physical alterations, and renewed awareness of their significant roles in the surrounding neighborhoods should be a catalyst for greater collaboration.
- Neighborhood assets such as location within the region, historic character, scale, diversity, and as a significant-sized employment center, are considerable building blocks for long term success.

Successful economic development initiatives require stakeholders to address several of the elements of community building. This document describes a process that should lead to a workable strategy. The following provides not only an outline of an approach to facilitate stakeholder consensus, but also identifies certain projects and programs that should be seriously considered.

As with any such exercise, it must begin with an accepted vision. To provide a working model and to establish a reference point for going forward as an example, certain liberties have been taken to describe an illustrative vision as if the stakeholders have arrived at a consensus. Though provided as an example, it reflects observations gleaned as a result of the onsite interviews with the various study area representatives.

Working Vision (example): Create a unique destination corridor that allows for the highest level of healthcare practices, superior regional access, integration of diverse people and services, and is sustainable over time within an attractive, vibrant environment.

Elements to Achieve the Vision

To support achieving the vision, the next steps include identifying the various issues and developing principles leading to strategies and specific actions, both short term and long term. The process is designed so that each element ties back to the overarching vision. As part of developing the Chicago Avenue corridor economic development platform, the following are proposed:

1. **Programs** – A coordinated effort that includes urban design policies, sites for development, latest technology trends for facilities, educational, social service, recreational, employment support, and branding of the corridor.
2. **Property** – Land use entitlements; location of specific development sites for complementary medical services, workforce housing and neighborhood retail; establishment of boundaries for future expansion; identification of specific buildings for retrofitting for various uses, are all included in this element.
3. **Branding** – Diversity of cultures, activities, and employment, centered on health and wellness, establishes a unique base for branding the corridor. Appearance affects credibility, thus quality design and maintenance of the public realm (parks, sidewalks, streets, and r-o-w) are essential to support branding.
4. **Access and Mobility** – Well-defined entry points, internal circulation, alternate modes of transportation, better transit connections, and pedestrian linkages all should support the area's strategic location within the region.
5. **Partnering** – Creating focused public funding sources and private investment partnerships; establishing a new, or identifying an existing, entity to be "keeper of the vision."

Translating the above to specific actions is a process that should be discussed and ultimately embraced by the stakeholder community. Based on the input generated for this study and analysis, RERC is recommending consideration of the following comprehensive approach:

<u>Programs</u>
As outlined above, this element includes the coordination of educational, social service and employment support; technology trends, as they influence development; and branding the corridor.

The social services provided in the area are extensive – even considered by some to be excessively concentrated. The *Backyard Initiative* sponsored by Allina provides an extraordinary opportunity to reengage with the various Phillips neighborhoods and organizations in addressing social, educational, recreational, and employment support opportunities under the aegis of improving the resident community's health and healthcare.

Responding to the recreational issue, a common theme in the interviews was the lack of public gathering places the resident neighborhood community could truly call its own. The existing recreational and open spaces are poorly maintained and programmed and thus underutilized. The youth recreational activities observed by the consultant team were on private fields owned by Wells Fargo. As part of a wellness initiative, the public parks and playfields should be enhanced to serve a more significant role in the branding of the area.

<u>Property</u>

Sites for ancillary or other types of complementary medical facilities, such as clinical laboratories, "back of the house" support services, medical offices, and housing, appear to have options either on institutional campuses or along Chicago Avenue.

Information provided to date indicate that with the exception of the industrial zoning category assigned to the DDS Building site, the land use and zoning codes as currently adopted can accommodate all of the various uses – medical, retail, hospitality, restaurant and residential (single family & multi-family) – supported by previous area-wide plans. Thus, from a purely land use perspective, all the necessary regulations appear to be in place. However, zoning must provide the flexibility to accommodate changing market conditions and development parameters long-term.

An initial assumption of the corridor's future development potential was the absence of sites for complementary development – be it medical-related, retail or housing. Upon completing the initial market assessment and discussing the future development programs for both Children's and Abbott Northwest Hospitals, it appears that for the next thirty years, they can accommodate their needs within their own campuses or existing facilities. Other mixed use retail, office and housing developments could be accommodated along the corridor. Specifically, these sites would include:

- Children's Specialty Center site can double in size for future medical office building expansion. The expansion would provide an additional 140,000 SF or more.
- Consolidation and restructuring of hospital administration and ancillary services is creating additional capacity (60,000-75,000 SF) in existing medical buildings.
- There is potential for adaptive reuse of the DDS structure for a variety of uses – possible 600,000 SF – 1,000,000 SF.
- The former Mt. Sinai Hospital has underutilized capacity with medical infrastructure and could be retrofitted for a variety of educational, clinical and laboratory options.
- Assemblage of aging residences between 24th and 25th Streets East could be incorporated into an additional phase of the Phillips Park Initiative with mixed uses fronting Chicago Avenue providing additional housing and neighborhood retail.
- Existing surface parking lots and air rights over parking structures between 28th Street East and the Greenway also provide opportunities for additional residential/mixed use development.
- Initial additions to retail related space should be concentrated at the intersection of Chicago Avenue and E. 24th Street as part of backfilling the Minneapolis Grand property and the potential mixed use development which could be an additional phase to the Phillips Park Initiative.

- Updated urban design and land use policies should encourage concentration of ground floor activity uses fronting Chicago Avenue.

Attached are two aerial maps of the corridor which identify the key sites/facilities that present potential (re)development opportunities in the short-term (1-5 years) as well as in the mid- and long-terms (6-15 years).

<u>Creating Brand Identity</u>
Creating a brand for the corridor has been discussed at various levels. As part of the AICP workshop in April of 2009, participants suggested focusing on the corridor area as a “wellness” corridor instead of a “life-science” corridor. This acknowledges a broader, more inclusive identity of the community, playing off preventative healthcare and exercise such as walking, cycling, and other outdoor activities.

The successful branding of the corridor will be dependent on the ability to implement the total spectrum of the “makeover” – urban design, upgraded public facilities, more housing options, resident employment in the neighborhood, safety, better transit access, upgrading of public education, signing/wayfinding system, and most importantly, employee and resident confidence in and advocacy for the area.

Peavy Park is a contributor to the overall perception of the corridor. A common issue brought up by a number of the interviewees was the state of Peavy Park and its “loss” to the area neighborhoods as a recreational and social gathering place. Apparently, there have been a number of initiatives to get the Minneapolis Park Board to address the plight of the park, with few results. Its poor maintenance and current design has limited its use as a neighborhood asset. It has become more of a location for less desirable activity. Additionally, the lack of programmed activities for children has added to its underutilization. The park’s strategic location as an entrance to the corridor and its current image reflect poorly on Chicago Avenue. Addressing the redesign and reprogramming of the park will be essential to reinvestment and branding the corridor. Other recreational areas, such as the ball field and park area adjacent to Anderson Elementary School, are also in need of attention.

During the consultant team’s neighborhood physical survey, the only visible youth sports activities were being played on the two privately owned Wells Fargo fields. Wells Fargo also has an extremely well-maintained park area within the confines of its campus on the periphery of the Phillips West neighborhood. Coordinated use of both public and private recreational facilities, as well as programmed activities that encourage neighborhood team sports, can reinforce the community identity and pride as well as be part of the branding effort with team logos and uniforms.

Signing and a well-designed way-finding system can add to a sense of place and create icons that contribute to the brand image. Such icons can be placed at the various entry points to the corridor, coordinating design features with other physical elements such as planters, banners, lighting fixtures, even traffic signals to provide an awareness that one is in a special place. A positive physical image should be supported by well-articulated urban design policies that address both private developments and the public realm. Once in place, well-maintained public rights-of-way and parks speak volumes to an area’s sustainability. The reconstructed Chicago Avenue’s new identity, created by its reconfiguration, lends itself to potential new design policies that encourage successful future (re)development outcomes. The additional investments in the public realm, and their appropriate maintenance, send strong signals to the corridor's economic viability.

Access and Mobility
The Phillips neighborhood area is strategically located within the larger metro area with direct connections to the CBD and only minutes from the University of Minnesota campus. Bordered by both Interstates 35 W/94 on the west and north sides and Hiawatha Avenue on the east, the regional access could be enhanced with additional ramps for access to and from the area.

Unfortunately, these major arterials also create buffers that restrict east-west connections. As identified in the AICP workshop summary document, the future focus for transportation related initiatives should serve two markets: "residents traveling outside of the neighborhood to jobs and services and employees coming into the neighborhood." Additional recommendations having merit include the following:

- Increase pedestrian access to and through institutional campuses
- Improve east-west bus connections
- Expand employee-based transit/shuttle services
- Enhance existing No.5 bus service
- Continue to evaluate long term benefits of trolley service along Chicago Avenue and the Greenway
- Evaluate converting existing one-way pairs to two-way streets

Though more than 20% of the current client workforce arrives by non automobile modes, parking facilities will continue to play a significant role in the future development along the corridor. Whether surface or structured facilities, their design and location will be keys to supporting the development opportunities and how new projects interface with the existing fabric of the street and the adjacent neighborhood. Incentives, and/or subsidies, should be made available to support parking for mixed use projects and higher density residential options. These parking facilities should accommodate green technology for plug-in and hybrid powered vehicles, as well as lockers and related facilities for cyclists.

Partnering
The considerable number of vested stakeholders provides a foundation to continue to invest in the area. However, diverse stakeholder goals and objectives have emerged. Neither the public, private or institutional roles are well defined.

As in most cases where an area has lost economic momentum and experienced physical and social decline, this environment did not change overnight. It is a result of many years of neglect or loss of focus, whereby resources, both public and private, were invested elsewhere in the region for numerous reasons. The desired renewal of the corridor is a continuum of the efforts that have already been initiated by the many stakeholders: Phillips West, Midtown Phillips, and East Neighborhood Associations, the Ventura Neighborhood Association, the Phillips Partnership, Allina, Children's and Abbott Northwest Hospitals, Wells Fargo, the city, county, the many other non-profit organizations, as well as the various businesses that serve the area.

The policies of the various entities come into conflict at times and are reflected in their diverse goals for housing production. An example is the overall desire for more market rate housing to attract income diversity and provide a product that would appeal to a greater number of the

13,100 employees working in the immediate area. Below are examples of competing goals or policies:

- There is a desire for more market rate housing but a fear of gentrification.
- The city's policies for incentivizing/subsidizing housing establish threshold goals requiring set asides for low and very low income households. There are no policies for market rate assistance.
- City NSP policies do not allow for demolition funding of deteriorating structures for new developments, only rehab funds.
- There is a desire for more owner-occupied residential units, but the density requirements necessitate incentives to support structured ramps, and this is not an eligible cost.
- Current rental products are mostly tied to programs (drug rehab, homeless, job training, etc.), creating a concentration of social issues that impact the neighborhoods. The flipside is that non-programmed rental projects are poorly managed and are not the best neighbors.
- Even the city has divided its residential development program into single family and multi family departments, thus dealing with them as a commodity instead of as a part of the development fabric of a neighborhood.

The result is an approach to the community's development whereby those who invest in providing housing units approach their projects based on formulas, incentives and subsidies for which they can qualify instead of looking at the broader community-building aspect. In short, there is essentially no single entity responsible for the overall physical and social development of the neighborhood. The strength of having a broad-based stakeholder group is also a weakness in achieving a consensus on "multi-jurisdictional" and multicultural neighborhood issues.

Implementation of projects within the corridor has been initiated by a variety of partners, each with their own goals. The Phillips Partnership has identified safety, employment, transportation and housing as its mission. Allina, through its *Backyard Initiative,* focuses on neighborhood health and healthcare. The Phillips Park Initiative, PPL, Inc. and Hope Community all provide housing development and management. Resource, Inc., Children's and Abbott Hospitals, and Wells Fargo have supported employment training programs. The city provided funding for low income housing and the capital improvements to Chicago Avenue. Each of the neighborhood associations had funds for their respective plans and activities and various other organizations have identified education, recreation, cultural and arts programs for their support. In sum, a great deal of interest, time, talent and treasure have been generated over the recent past to improve the area's physical and social environment with a great deal of visible success.

Yet, there does not appear to be any one entity that is responsible for coordinating, advocating, and implementing the overall vision - what some call "the keepers of the vision." To be effective, such an entity must have dedicated resources, both public and private, with stakeholder support and a specific mission, accountable to schedules and budgets. *The attached chart attempts to identify specific elements to be addressed through the collaboration of the various "players" in the public and private sectors.*

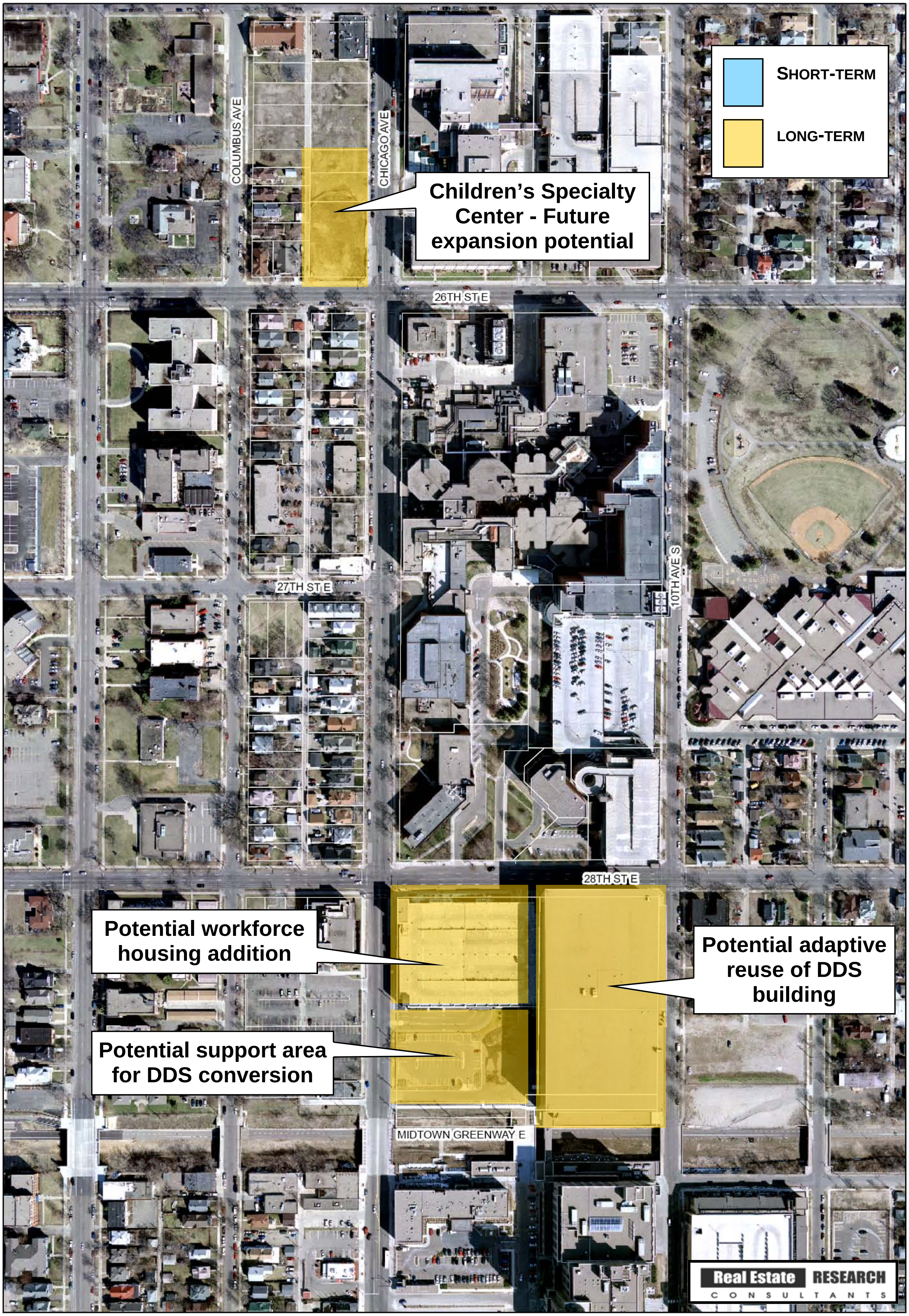
A final and very important consideration in the establishment of a corridor administrator is the identification of a dedicated funding source(s) to underwrite the implementation programs. One of the options is to revisit the current allocation of funding from the Phillips Partnership, Allina's *Backyard Initiative,* city, county, and Parks Board capital improvement programs and coordinate their expenditure in a more focused effort. Additionally, the city should explore the creation of a tax increment corridor from Interstate 35 W/94 to the Midtown Greenway one block deep on either side of Chicago Avenue. The establishment of such a tax increment district would allow resources to be generated by private investment within the area to be spent anywhere along the corridor and not site specific. This type of tax increment utilization is common in many areas of the country and provides a greater flexibility in the use of increment funds to meet a wider range of public initiatives. It is our understanding that such an increment district would take a special act of the legislature for approval. If, indeed, special legislation is required, the city should take the initiative in leading this effort. It is our understanding these district wide legislative policies were in place in the 1970's and 1980's that contributed to the success of downtown Minneapolis' successful renaissance. Reinstituting such an option, along with the coordinated matching resources of the other stakeholders in the area, could be just the catalyst to leverage investment to address the various objectives identified above.

Attachments

CHICAGO AVENUE CORRIDOR POTENTIAL (RE)DEVELOPMENT OPPORTUNITIES

October 2009

CHICAGO AVENUE CORRIDOR POTENTIAL (RE)DEVELOPMENT OPPORTUNITIES



October 2009

Chicago Avenue WELLNESS CORRIDOR

CHICAGO AVENUE IMPLEMENTATION OPTIONS

PUBLIC REALM

INFRASTRUCTURE

- Completion of construction
- Addition of streetscape amenities- vertical elements
- On-street parking; metered or signed (revenues)
- Accommodation of future trolley line
- Peavy Park – redeveloped, programmed, recreational building use

POLICY

- Urban design guidelines along corridor
- Better internal project management/coordination
- Collaboration with neighbor-hoods / non-profits
- Coordinated funding sources: Parks District, CDBG, TIF, special assessments
- Establishing a "keeper of the vision" and accountability entity

PRIVATE REALM

INFRASTRUCTURE

- HOPE Academy Building's adaptive reuse
- Redevelopment of site for remaining homes between 24^{th} and 25^{th} Streets
- Leveraging underutilized use of Phillips Eye Institute parking ramp
- Repositioning use of vacant retail of The Minneapolis Grand at 24^{th} St. E & Chicago Ave.
- Adaptive reuse of DDS Building
- Additional floors (residences?) on TIF garage

POLICY

- Creating a forum for collaboration
- Engaging the "Backyard Initiative" with other city programs
- Re-engaging the Phillips Partnership with the overall vision
- Refocus on neighborhood schools/education consortium
- Renew branding efforts to "fight" negative perception of area
- Establishing a "keeper of the vision" and accountability entity

Real Estate RESEARCH CONSULTANTS

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