Redevelopment Planning: Northwest Quadrant

Prepared for:
Internal Discussion
City of Minneapolis—Council Member Briefings

Revised:
April 11, 2012
Context
Above the Falls Policy Review research through late 2011 yielded policy recommendations for most of upper riverfront

- Recommended changing residential vision back to industrial for two subareas
  - Subarea 5 (Northern Metal Recycling, Cemstone, etc)
  - Subarea 11 (North of Xcel power plant)

- Recommended more research in two additional areas:
  - Subarea 4 (MPRB Headquarters, Riverview Townhomes, small industrial businesses)
  - “Northwest Quadrant” (UHT and surrounding areas)
The “Northwest Quadrant” refers to the northwestern part of the City’s upper riverfront, extending north from Lowry Avenue on the west side of the Mississippi River.
The NW Quadrant of the City’s Upper Riverfront is a 130+ acre industrial area well-connected to the region’s highway system and the downtown core.
The 48-acre City-owned UHT is not intensively developed, while the rest of the NW Quadrant includes a mix of industrial users.
The area has been industrial since the turn of the century.

**Land**

- The area includes 108 acres of industrially zoned land, representing 3% of the City’s inventory of industrially zoned property

**Workers**

- 770 workers are employed by businesses in the area
- Most are employed in manufacturing or construction, representing 3% of the City’s jobs in those sectors
- 73% of these workers earn greater than $40,800 annually
- 13% are Minneapolis residents
Land Availability

- Excess capacity for general redevelopment in City in form of vacant and underutilized sites
- Surplus of **660 to 910 acres** of land available over the next 20 years of residential and non-residential buildout
- For upper river area
  - **Surplus** of land in some areas such as Hawthorne, Bottineau, and Marshall Terrace
  - **Shortage** of land in other areas, including Upper River Industrial District and Webber-Camden
Land Availability

- **Industrial Employment Study (2006)**
  - Industrial land availability in city shrinking, due to redevelopment and rezoning studies
  - Implementation of ATF 2000 would by itself decrease industrial land supply by **over 20%**

- **Vacant Industrial Parcel Analysis (2011)**
  - Of 1,029 acres classified as “vacant” by industrial, **89% have an existing** industrial or transportation related use
  - All but **16 acres** had some limitation on redevelopment; most of these sites are < 1 acre
  - While these limitations would not necessarily prevent redevelopment, they add complexity and cost
  - Industrial development more cost-sensitive than residential due to lower land value
Land Availability

- Land can accommodate more employment
  - More job-intensive uses can replace low job intensity ones (e.g. warehousing)
  - Multi-family housing can accommodate residents more efficiently than single family
- Businesses can employ higher numbers of City residents
  - 13% of industrial employees are Minneapolis residents
  - City can play role in improving linkages between employers, City residents, and training providers
Two multiphase development approaches have been the focus of study.

The NW Quadrant might be redeveloped as a higher-value light industrial and flex space alongside waterfront amenities (Industrial Approach).
Two multiphase development approaches have been the focus of study.

The NW Quadrant might be redeveloped as a residential neighborhood on the waterfront. (Residential Approach)

These approaches are not mutually exclusive. They could be combined.
Approach Descriptions

Industrial Approach  |  Redevelopment into an industrial business park

<table>
<thead>
<tr>
<th>2.5 million SF @ 0.6 FAR</th>
<th>3,800 net jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 to 35 years development timeframe</td>
<td></td>
</tr>
<tr>
<td>Immediate kickoff @ $7.40 PSF rent</td>
<td></td>
</tr>
</tbody>
</table>

Residential Approach  |  Redevelopment into a residential neighborhood

<table>
<thead>
<tr>
<th>4,000+ units @ 40 to 50 units per acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>45 to 50 years development timeframe</td>
</tr>
<tr>
<td>10-year wait until kickoff @ $21 PSF rent</td>
</tr>
</tbody>
</table>
Four considerations are of primary importance.

<table>
<thead>
<tr>
<th>Industrial Approach</th>
<th>Residential Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Public Purpose</strong>&lt;br&gt;How does it advance public goals?</td>
<td></td>
</tr>
<tr>
<td><strong>2. Market Support</strong>&lt;br&gt;Will the market support the development, and if so when?</td>
<td></td>
</tr>
<tr>
<td><strong>3. Public Finance</strong>&lt;br&gt;What public investment will be required to attract development, and will it be recouped?</td>
<td></td>
</tr>
<tr>
<td><strong>4. Implementation Path</strong>&lt;br&gt;How would the redevelopment be accomplished?</td>
<td></td>
</tr>
</tbody>
</table>
1. Public Purpose
Public Purpose — Three different community development perspectives

1. Business & Jobs
   - The Industrial Approach creates jobs and supports a strong business climate.

2. Community Stabilization
   - The Residential Approach contributes to the stability of nearby neighborhoods.

3. Growth & Density

Each of these perspectives is valid and important!
## Public Purpose — Benefits of Each Approach

<table>
<thead>
<tr>
<th>Industrial Approach</th>
<th>Residential Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Around 3,800 net industrial jobs are created, benefitting City residents, including low income workers</td>
<td>Creates strongest neighborhood connection to river</td>
</tr>
<tr>
<td>Supports retention of Mpls businesses</td>
<td>Makes new parks and trails busier and safer</td>
</tr>
<tr>
<td>Creates options for siting premier industrial facilities</td>
<td>Supports existing neighborhood businesses/Adds new commercial amenities</td>
</tr>
<tr>
<td>Indirectly benefits nearby businesses and suppliers in terms of additional revenue and jobs</td>
<td>Diversifies North Minneapolis household mix</td>
</tr>
<tr>
<td>Grows City/Increases property tax base</td>
<td>Grows City/Increases property tax base</td>
</tr>
</tbody>
</table>
2. Market Findings
There is market demand for industrial land from an owner-occupied industrial submarket.

**Market Assessment**

+ Limited supply of modern industrial space that meets the needs of industrial users
+ Central location in the region with proximate highway accessibility
+ Recent significant industrial investment despite policy cloud
- Limited turnover from current owner occupants and site prep costs

**Requirements for Market Activation**

- Clear and prepare UHT site
- Create gap financing program to attract development in neighboring areas
Some examples of newly-constructed industrial/office flex space.

**Minneapolis Business Center**  
*Minneapolis, MN*  
- 128,000 SF  
- 25% Office | 75% Warehouse  
- 24 foot ceilings

**Highway 7 Corporate Center**  
*St. Louis Park, MN*  
- 78,000 SF  
- 60% office | 40% Warehouse  
- 18 foot ceilings
The market for a master-planned residential neighborhood is still 10 to 15 years distant, or possibly more.

**Market Assessment**

+ Riverfront location and proximity to downtown are attractive characteristics

- Property assembly required to reach critical mass

- North Minneapolis location is a hurdle

**Requirements for Market Activation**

- Site assembly and preparation
- Riverfront park and trail completion
- Street upgrades
- Additional public transit service
- Strengthened housing market
Developers need to have certainty they will obtain lease rates that yield an adequate return on investment.

- $19 to $20 PSF per year required residential lease rate and/or equivalent value for ownership

- New residential construction is currently concentrated in the Warehouse District, North Loop, and the Downtown core

- Medium to long-term expectation is for:
  - Continued market strengthening for City development locations
  - Recovery and strengthening of North Minneapolis residential market
A new neighborhood on the riverfront could attract a unique market niche

**Upper Landing**  
*St Paul, MN*

- 22 acres
- 600 dwelling units
- $175 million development
- New park
- Regional trail

**West River Commons**  
*Minneapolis, MN*

- 56 dwelling units
- Ground floor retail
- Lake Street and West River Road
Office redevelopment is unlikely.

**Market Assessment**

- Class A tenants prefer downtown locations
- Class B cannot support construction costs
- Single tenant owner occupied possible, but no reliable pipeline
- Plentiful, better positioned locations
Market Context Maps

North of Dowling Subarea Context Map

Legend
- NDC Subarea
- Existing Park
- Existing Future Park Expansion
- Nature Freewright/Public Edgel
- Neighborhood Commercial Node
- Innovative Redevelopment Focus
- Shingle Creek
- Existing Freeway and Trail
- Existing Future Freeway Alignment
- Railroacs
- Access to Regional Freeway Network
- Drainage Channel
- Sound Protection
- Prominent Rail Corridors
- Existing Freeway
- 5-20+/- Mile Separations
- Existing Freeway
- Greenway Plan

Upper Harbor Terminal Subarea Context Map

Legend
- UHT Subarea
- Existing Park
- Proposed Future Freeway/Trail Location (Existing)
- Nature Freewright/Port Public Edgel
- Access to Regional Freeway Network
- Existing Freeway
- Existing Future Freeway Alignment
- Railroacs
- Sound Protection
- Proposed Freeway/Trail Location (Existing)
3. Public Finance
Industrial Approach — Public investment is warranted in Phase I. It is not in Phase II w/o modification.

<table>
<thead>
<tr>
<th>Benefit Cost Ratio</th>
<th>Phase I</th>
<th>Phase II</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.5</td>
<td>0.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Value Created</th>
<th>Phase I</th>
<th>Phase II</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$45 million</td>
<td>$114 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public Predevelopment Cost</th>
<th>Phase I</th>
<th>Phase II</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$8 million</td>
<td>$56 million</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sufficiency of Value Capture</th>
<th>Phase I</th>
<th>Phase II</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sufficient</td>
<td>Not sufficient</td>
</tr>
</tbody>
</table>
Modified Industrial Approach — Phase II is infill development of selected properties

- Target low value properties with structures that are functionally obsolete
- New industrial development can coexist with existing facilities
- An industrial land pipeline program could pursue strongest opportunities City-wide, not just in upper riverfront
Residential Approach — The overall approach supports public investment when market threshold is reached

<table>
<thead>
<tr>
<th></th>
<th>Phase I</th>
<th>Phase II</th>
<th>Phase III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Cost Ratio</td>
<td>0.7</td>
<td>1.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Net Value Created</td>
<td>$157 million</td>
<td>$180 million</td>
<td>$348 million</td>
</tr>
<tr>
<td>Public Predevelopment Cost</td>
<td>$45 million</td>
<td>$8 million</td>
<td>$24 million</td>
</tr>
<tr>
<td>Sufficiency of Value Capture</td>
<td>Possibly sufficient</td>
<td>Sufficient</td>
<td>Sufficient</td>
</tr>
</tbody>
</table>
Phase I is the greatest challenge for the residential approach.

Justification would include:

- Sets the stage for later phases
- Has positive community impacts

Modified Residential Approach — Phase I is optimized for public financial viability

Public financial performance can be improved by:

- Predevelopment costs shared with public partners
- Increased density generates greater value without adding to predevelopment costs
- North part of Upper Harbor Terminal included in Phase I
4. Implementation Strategy
Industrial Approach—Implementation

1. UHT
   - Clear and clean land
   - Provide site access by building the parkway
   - Development can proceed from north to south, or vice versa
   - Land along Dowling could be last developed, and marketed for an owner occupied office campus in the interim

2. Remaining NWQ
   - Realistic path is not complete redevelopment.
   - Instead, identify low value properties as candidates for redevelopment
   - Create and market industrial land pipeline program
   - Attract site-specific development partners—owner occupant industrial business

1. **Phase I Implementation**

   - **Major Implementation Challenges**
     1. Buying and holding property
     2. Uncertainty of Market Timing

   - Phasing. Two phase site assembly, with a market trigger
     - Phase I. Patient acquisition in the form of options, or buy-leaseback.
     - Phase II. More assertive acquisition
     - Trigger for Phase Two: a) riverfront parkway, park and trail completion, b) market appreciation to support required rents.

1. Phase I Implementation

- Land Banking. By City or third party.
- Improve Public Financial Feasibility
- “Soft” Requirements
  - Long-term commitment to project
  - Willingness to utilize value capture
- There is no eminent domain for redevelopment

2. Phase II--UHT

- Clear and clean land
- Provide site access by building the parkway
- Development would proceed from north to south

3. Phase III--South of Dowling

- Development proceeds from the north
- Two implementation approaches.
  - Create gap financing program for private acquisition and development.
  - Or do public/third party site assembly as in North of Dowling.
Recommended Development Scenarios
Three Defensible Development Scenarios

1. Modified Industrial Scenario
2. Modified Residential Scenario
3. Hybrid Scenario
Modified Industrial Scenario

Description

- Industrial land use in entire Northwest Quadrant, involving new development on the Upper Harbor Terminal property, and infill and rehabilitation in the rest of the Northwest Quadrant

Key considerations

- Greatest impact on business and job development
- Near term development of UHT area is supported by market
- Implementation is straightforward using existing development and finance tools
Modified Residential Scenario

**Description**
- Residential redevelopment of entire Northwest Quadrant, with Phase I modified to encompass northern part of UHT site

**Key Considerations**
- Greatest impact on property tax base, community stabilization, and support of active river corridor
- Significant uncertainty about market timing
- Disruption of long-time businesses (albeit as willing sellers)
- Implementation may stretch City comfort zone—esp. landbanking, use of TI Finance or similar
Hybrid Scenario

**Description**

- Residential redevelopment north. Industrial development south.

**Key Considerations**

- Would have some characteristics of each of the preceding scenarios
- Allows for some near term industrial development on the City’s UHT site, while preserving the ATF goal of some neighborhood frontage on the river.