
Redevelopment Planning: Northwest Quadrant

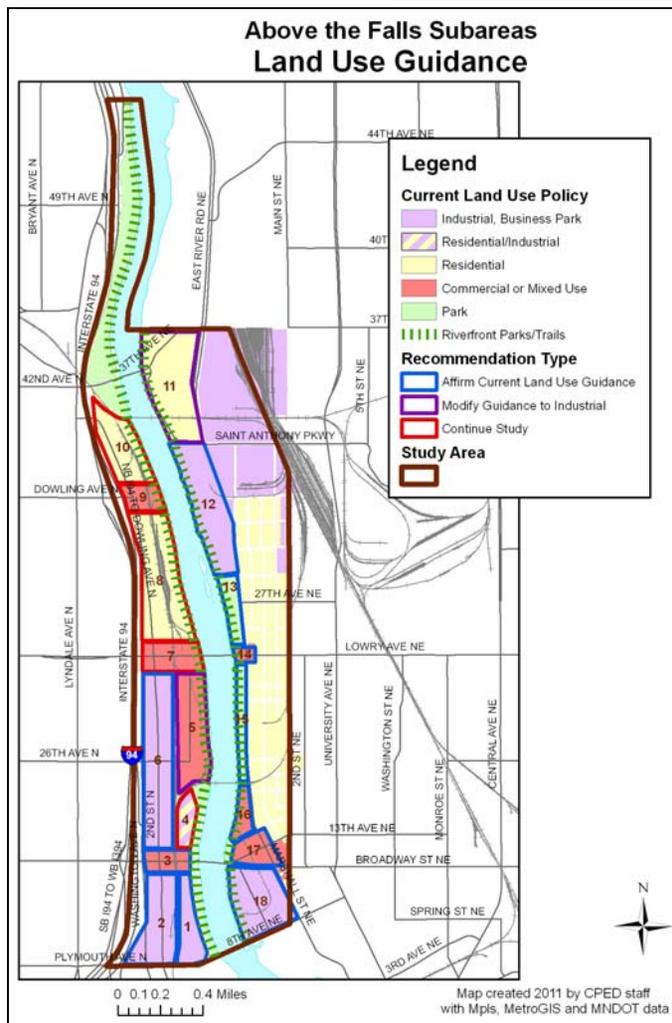
Prepared for:
Internal Discussion
City of Minneapolis—Council Member Briefings

Revised:
April 11, 2012



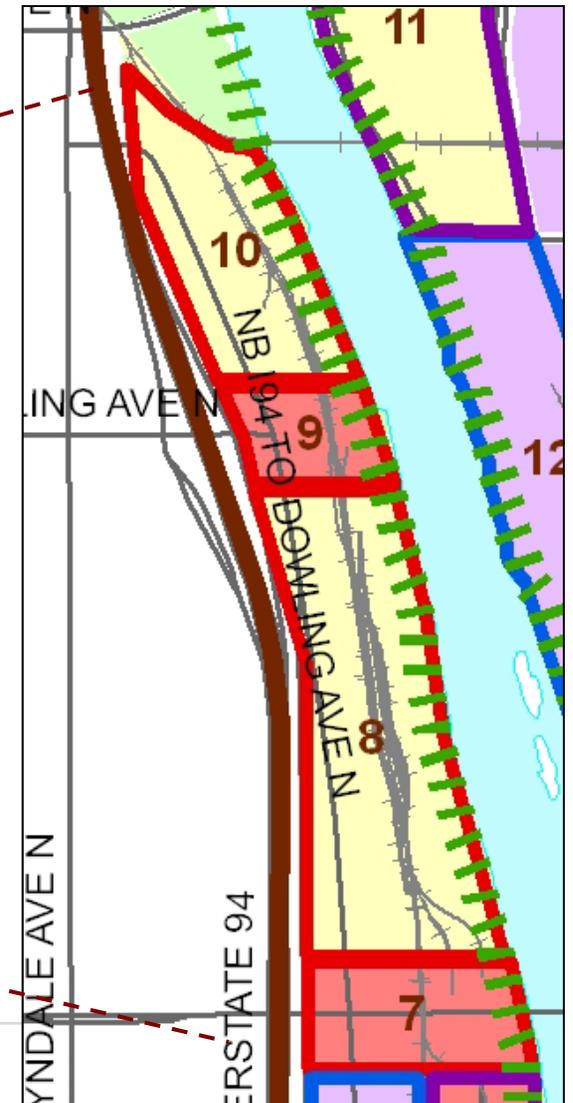
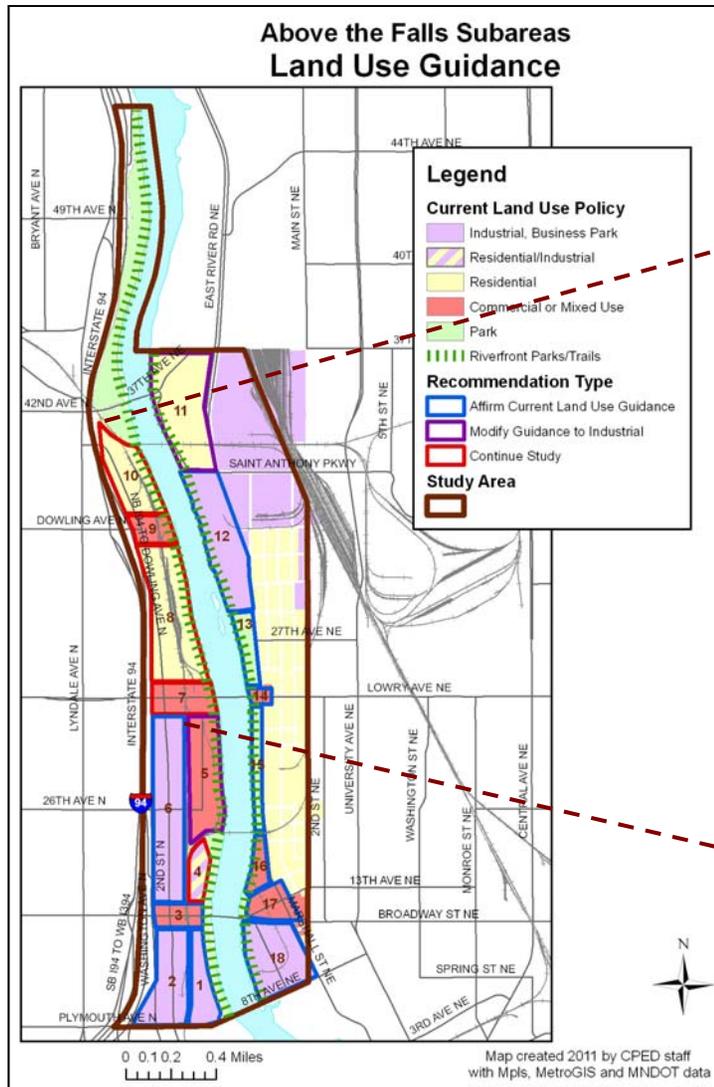
Context

Above the Falls Policy Review research through late 2011 yielded policy recommendations for most of upper riverfront

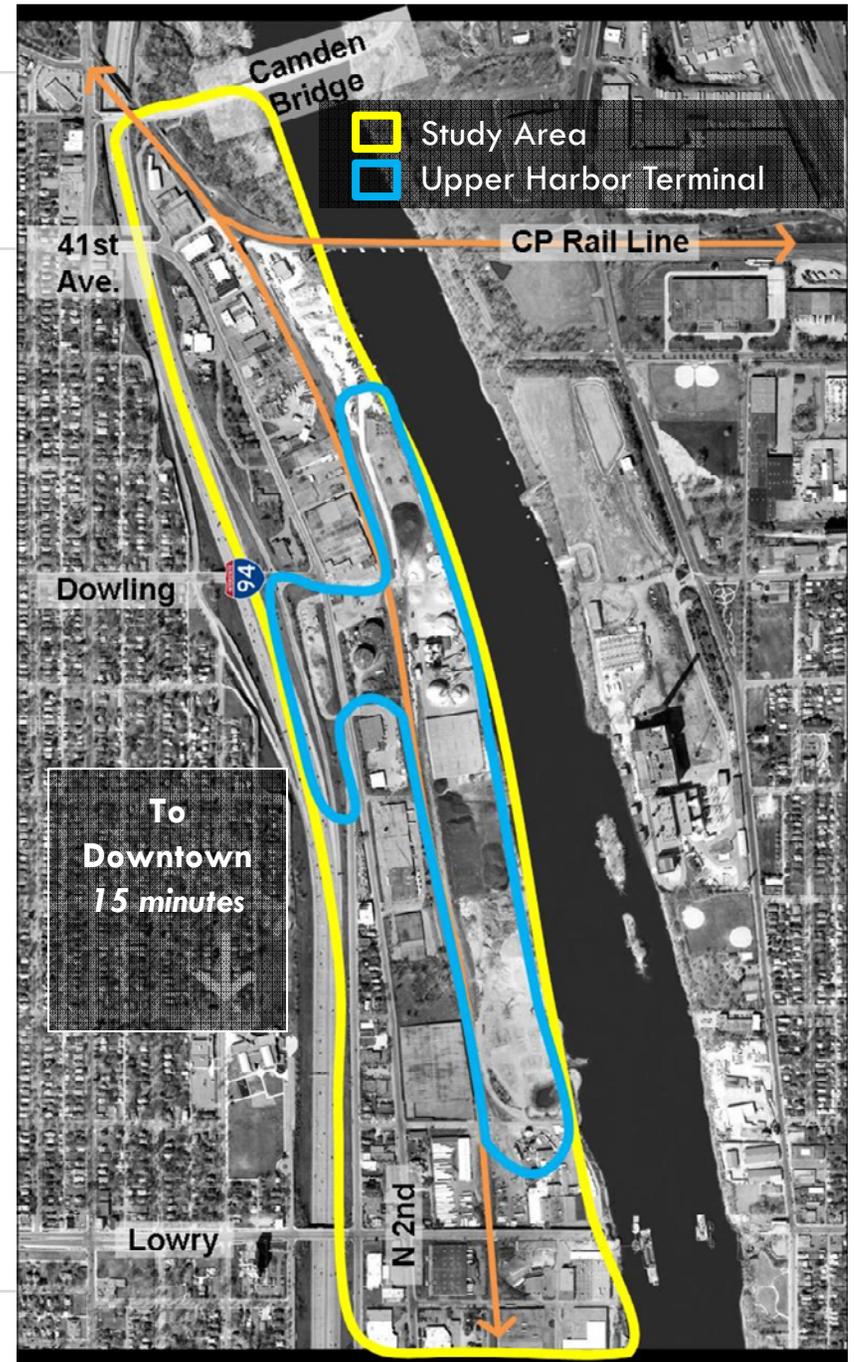


- Recommended changing residential vision back to industrial for two subareas
 - Subarea 5 (Northern Metal Recycling, Cemstone, etc)
 - Subarea 11 (North of Xcel power plant)
- Recommended more research in two additional areas:
 - Subarea 4 (MPRB Headquarters, Riverview Townhomes, small industrial businesses)
 - “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.



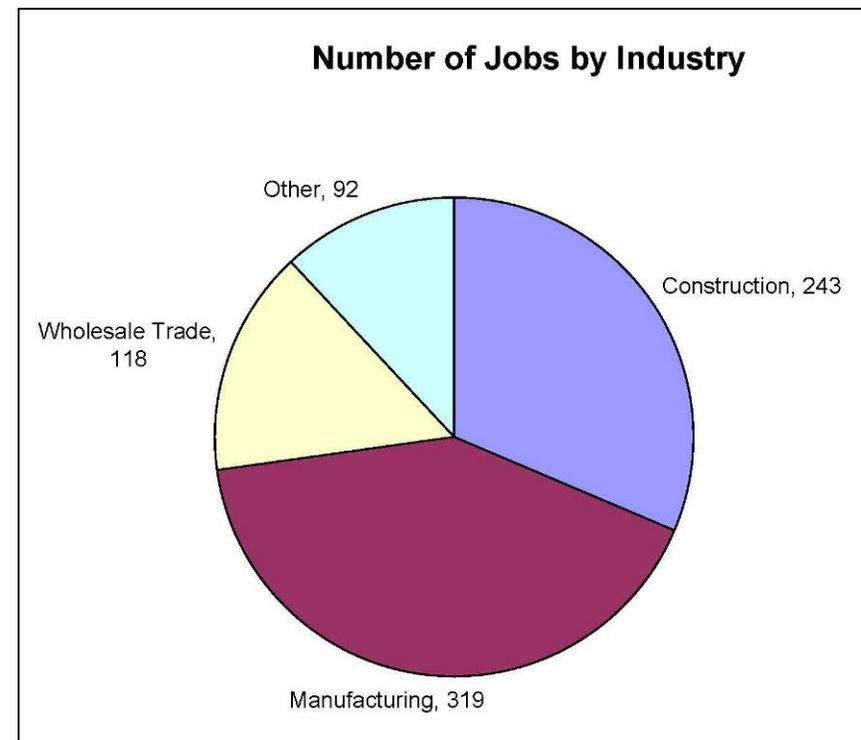
The area has been industrial since the turn of the century.

Land

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

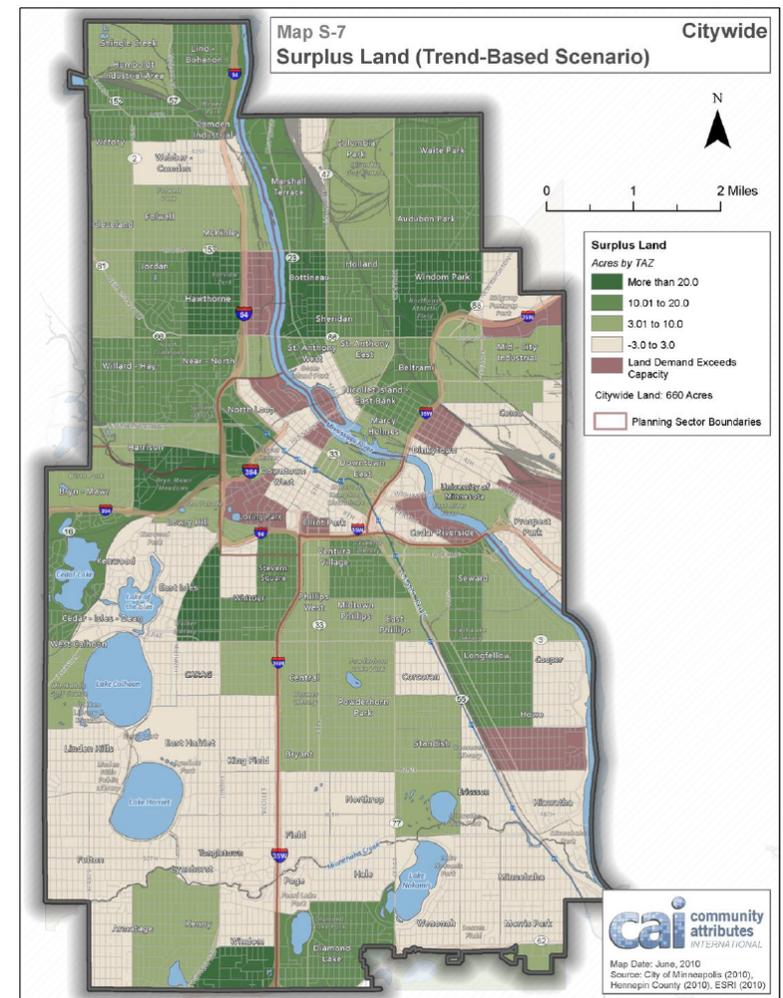
Workers

- 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



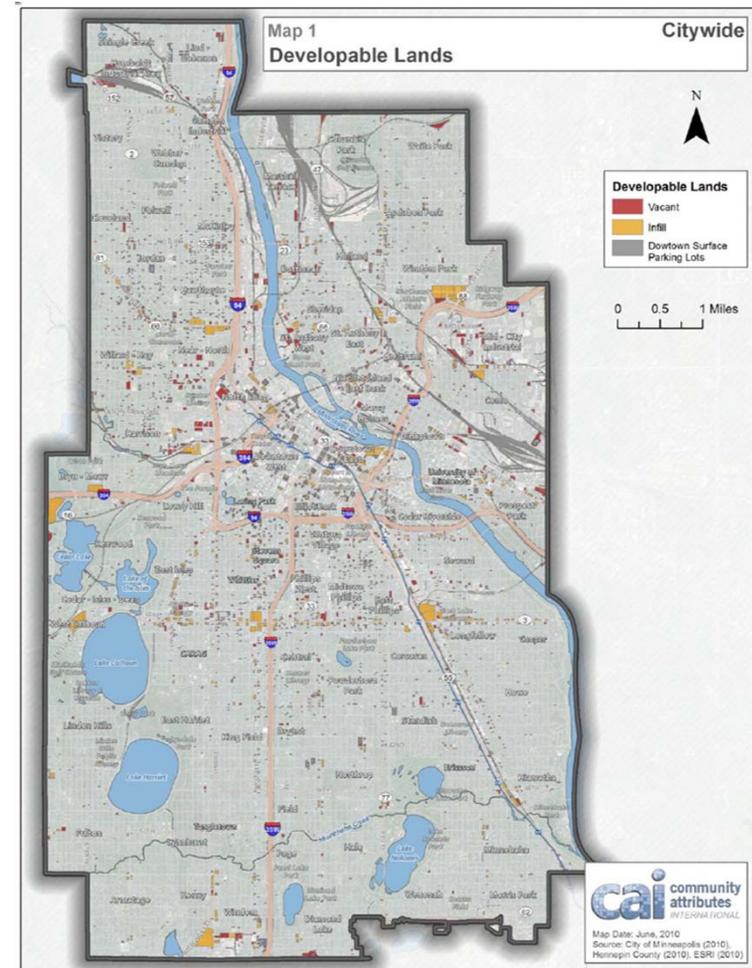
Land Availability

- 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

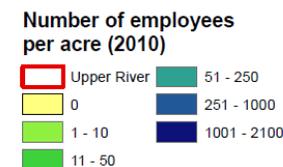
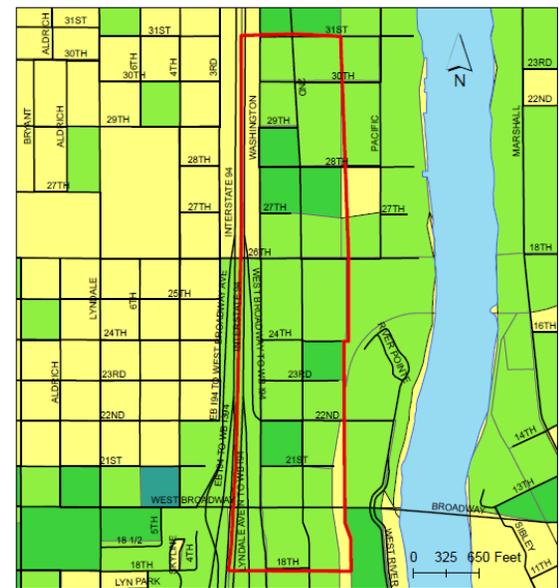
- Industrial Employment Study (2006)
 - Industrial land availability in city shrinking, due to redevelopment and rezoning studies
 - Implementation of ATF 2000 would by itself decrease industrial land supply by **over 20%**
- Vacant Industrial Parcel Analysis (2011)
 - Of 1,029 acres classified as “vacant” 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

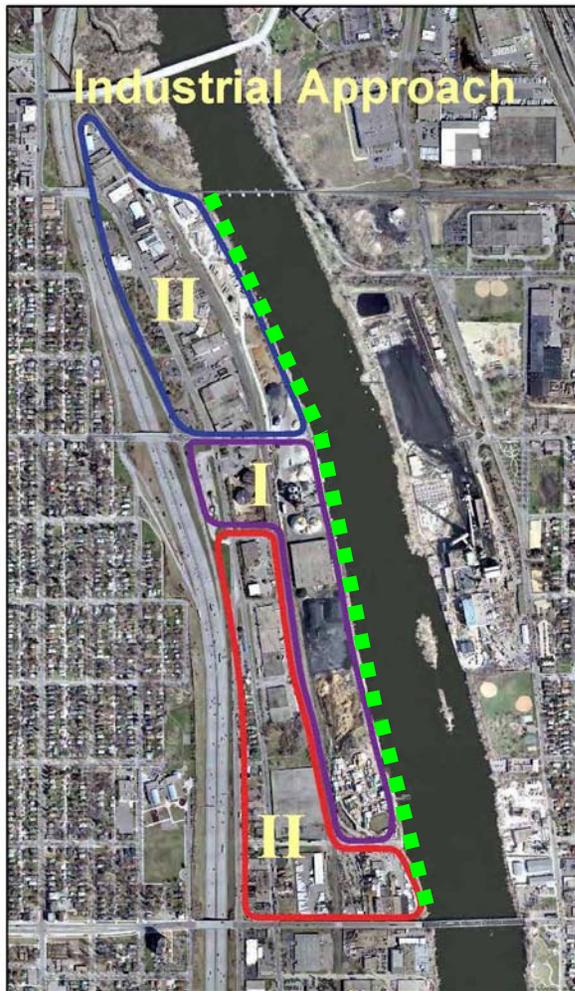
Upper River Industrial Employment District
Employees per Acre, Displayed by Census Block (2010)



Data Source: Minnesota Department of Employment and Economic Development

CPED Research
January 12, 2012

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

2.5 million SF @ 0.6 FAR 3,800 net jobs
30 to 35 years development timeframe
Immediate kickoff @ \$7.40 PSF rent

Residential Approach | Redevelopment into a residential neighborhood

4,000+ units @ 40 to 50 units per acre
45 to 50 years development timeframe
10-year wait until kickoff @ \$21 PSF rent

Four considerations are of primary importance.

Industrial Approach

Residential Approach

1. Public Purpose

How does it advance public goals?

2. Market Support

Will the market support the development, and if so when?

3. Public Finance

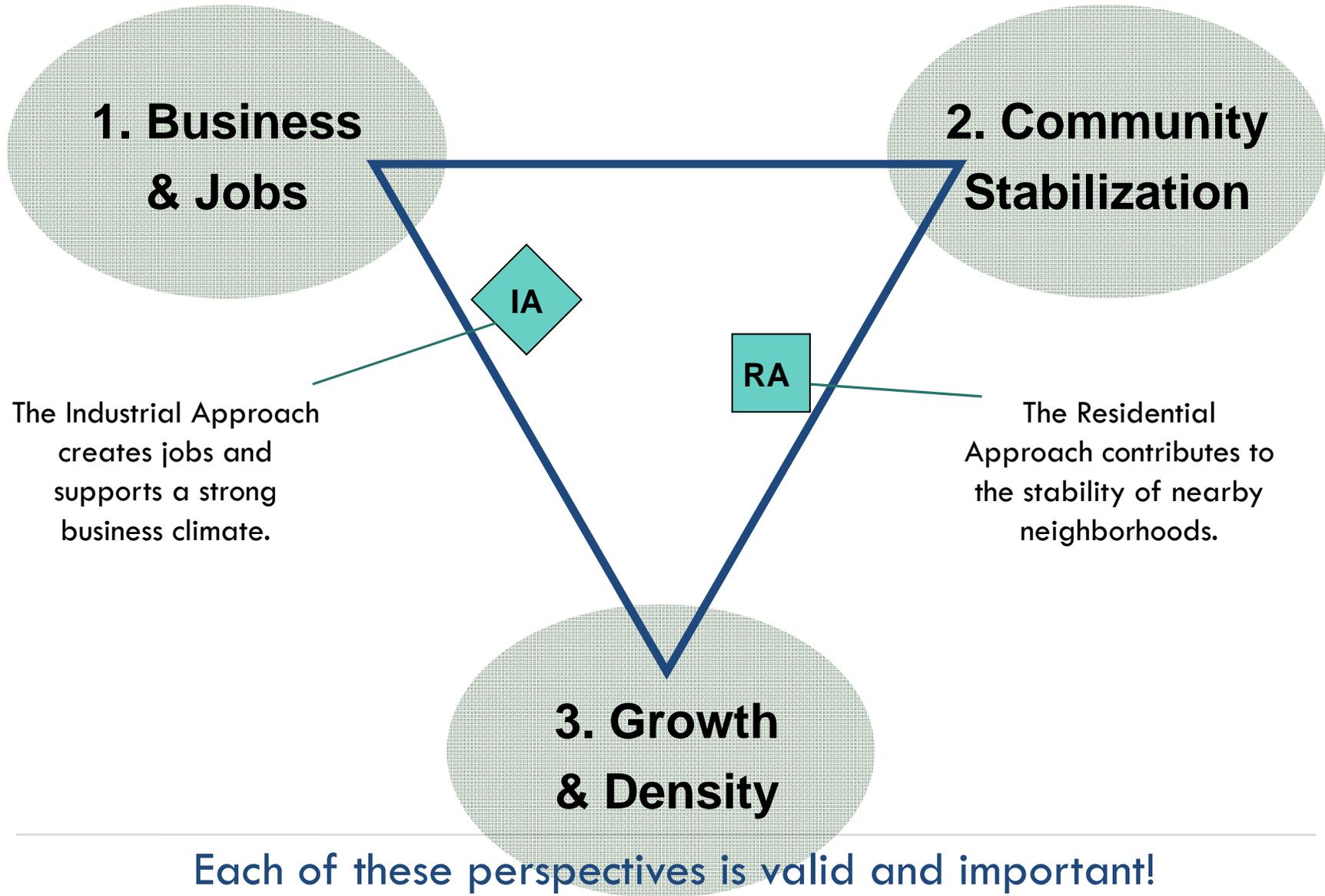
What public investment will be required to attract development, and will it be recouped?

4. Implementation Path

How would the redevelopment be accomplished?

1. Public Purpose

Public Purpose — Three different community development perspectives



Public Purpose — Benefits of Each Approach

Industrial Approach

Around 3,800 net industrial jobs are created, benefitting City residents, including low income workers

Supports retention of Mpls businesses

Creates options for siting premier industrial facilities

Indirectly benefits nearby businesses and suppliers in terms of additional revenue and jobs

Grows City/Increases property tax base

Residential Approach

Creates strongest neighborhood connection to river

Makes new parks and trails busier and safer

Supports existing neighborhood businesses/Adds new commercial amenities

Diversifies North Minneapolis household mix

Grows City/Increases property tax base

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



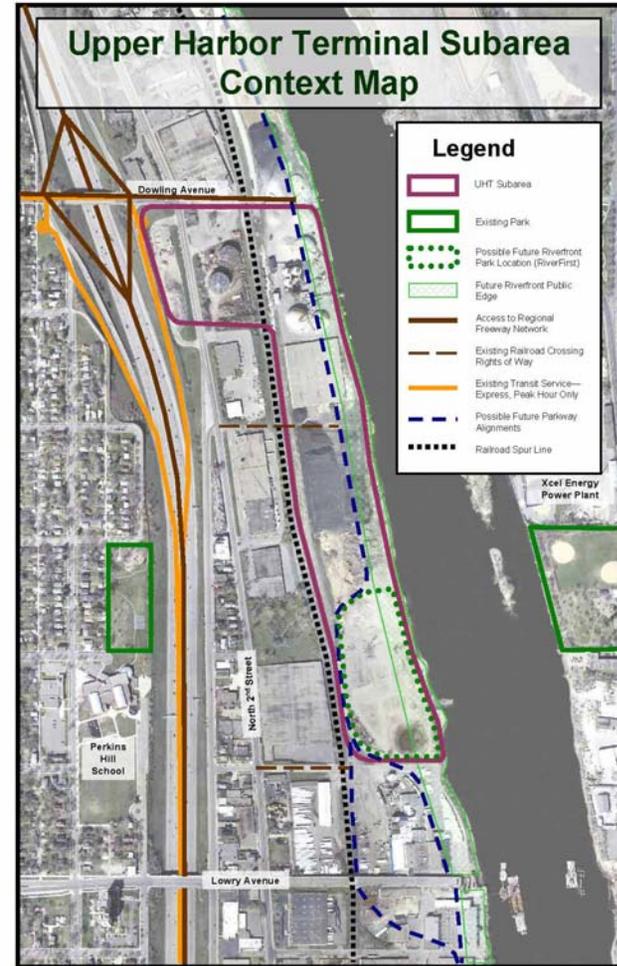
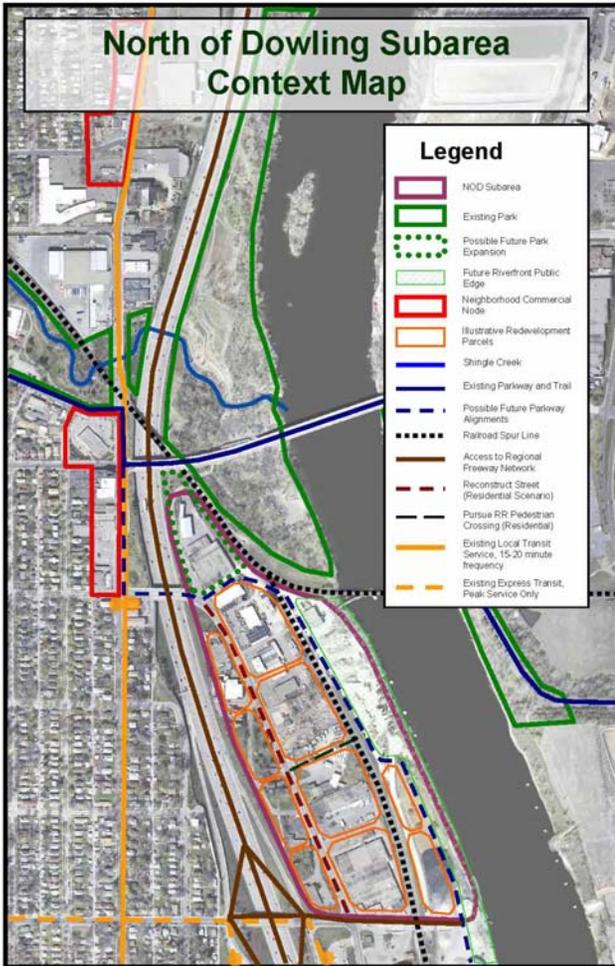
56 dwelling units, ground floor
retail, Lake Street and West
River Road

Office redevelopment is unlikely.

Market Assessment

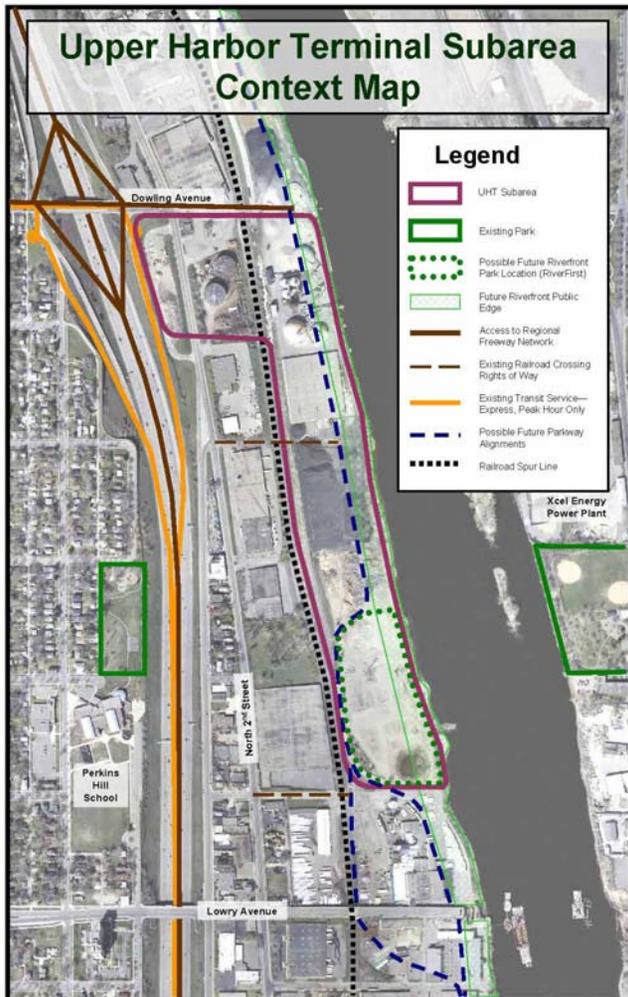
- Class A tenants prefer downtown locations
- Class B cannot support construction costs
- Single tenant owner occupied possible, but no reliable pipeline
- Plentiful, better positioned locations

Market Context Maps



3. Public Finance

Industrial Approach — Public investment is warranted in Phase I. It is not in Phase II w/o modification.



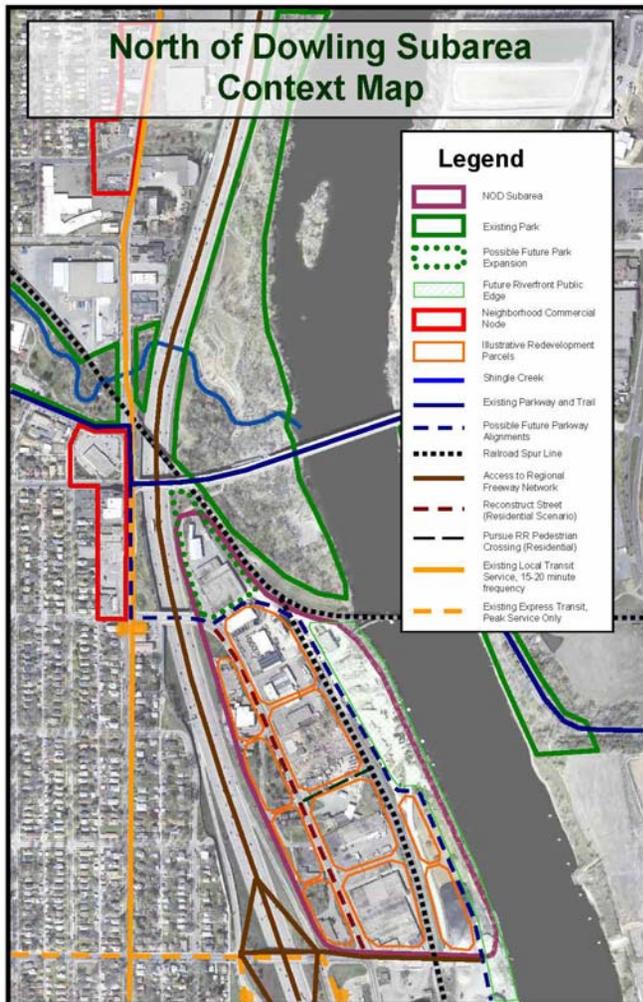
	<u>Phase I</u>	<u>Phase II</u>
Benefit Cost Ratio	1.5	0.7
Net Value Created	\$45 million	\$114 million
Public Predevelopment Cost	\$8 million	\$56 million
Sufficiency of Value Capture	Sufficient	Not sufficient

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



	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>
Benefit Cost Ratio	0.7	1.5	1.2
Net Value Created	\$157 million	\$180 million	\$348 million
Public Predevelopment Cost	\$45 million	\$8 million	\$24 million
Sufficiency of Value Capture	Possibly sufficient	Sufficient	Sufficient

Phase I is the greatest challenge for the residential approach.

Justification would include:

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

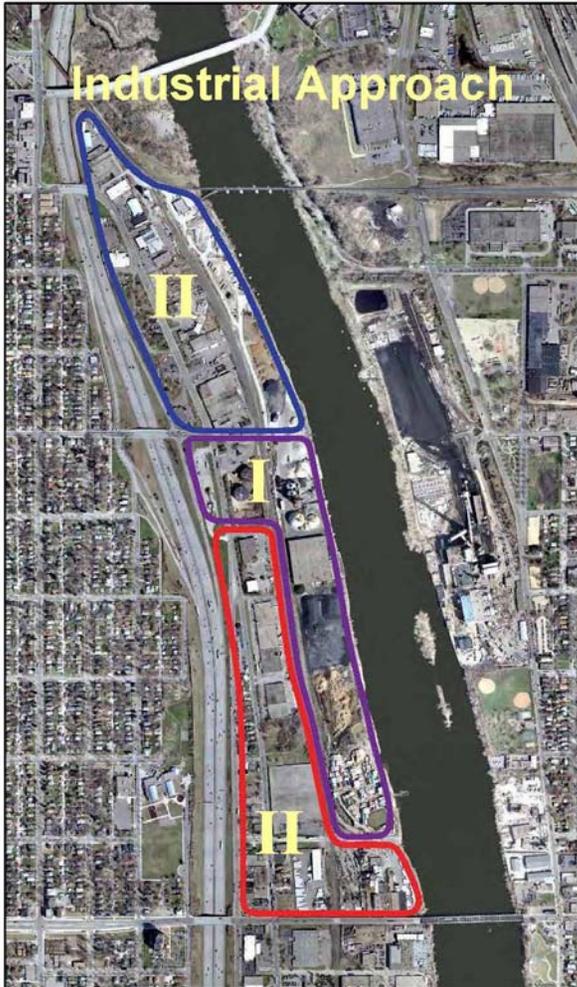
Modified Residential Approach — Phase I is optimized for public financial viability

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

Residential Approach—Implementation. Implementation entails surmounting challenges.



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.

Residential Approach—Implementation. Implementation entails surmounting challenges.



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

Residential Approach—Implementation. Implementation entails surmounting challenges.



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



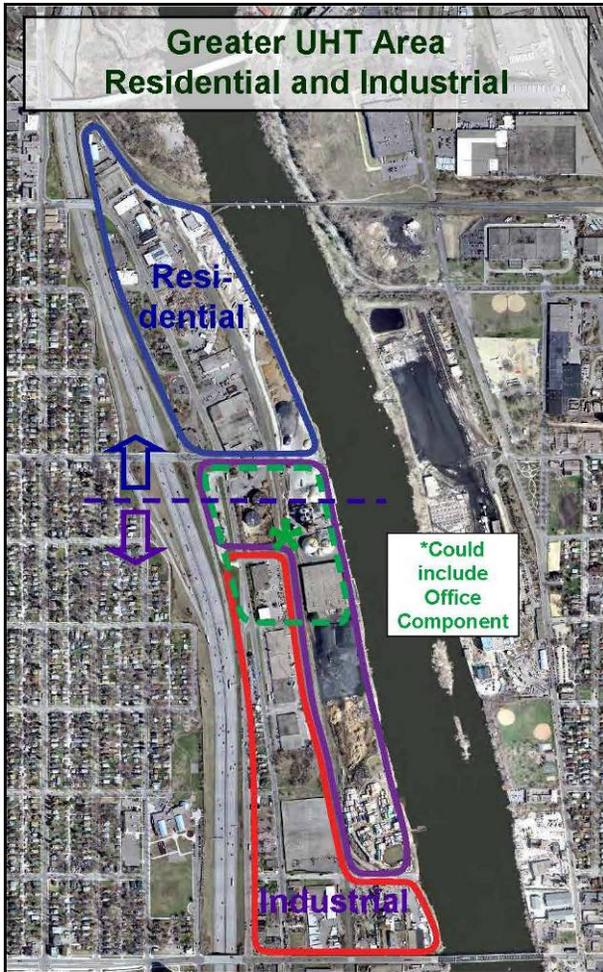
Description

- 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.