

MEMORANDUM

TO: City Planning Commission, Committee of the Whole
FROM: Beth Elliott, Principal City Planner, (612) 673-2442
DATE: July 9, 2015
SUBJECT: East Downtown Market Study

CPED Long Range Planning hired Perkins+Will and Stantec last summer to conduct a market analysis for East Downtown, generally consisting of the Downtown East and Elliot Park neighborhoods. Although attention was given to both short- and long-term development potential, particular emphasis was focused on the short-term as it is assumed that profound development momentum will occur in the short-term that will set the stage for long-term development within East Downtown.

In addition to defining the broad development potential of East Downtown, specific findings have focused on the following:

- The potential of developers to include ground-floor commercial space as part of any new development
- The priority locations of where ground-floor commercial space will be most viable
- The types of office users who will be attracted to East Downtown
- The number of hotels that could be supported near the new stadium and what their market drivers may be besides the stadium
- Differences in the development potential north and south of 5th Street South and what may be needed to promote any additional development
- Identification of housing types and price points needed within East Downtown in order to provide a full range of housing choices

The work is now complete. An Executive Summary is attached but the full report and a presentation to the Downtown 2025 East Downtown Task Force can be found at <http://www.ci.minneapolis.mn.us/cped/downtowneastdevelopments> under City of Minneapolis Downtown East Planning.

EAST DOWNTOWN MARKET STUDY: NAVIGATING THROUGH RAPID NEIGHBORHOOD TRANSFORMATION

Executive Summary
May 15, 2015

EXECUTIVE SUMMARY

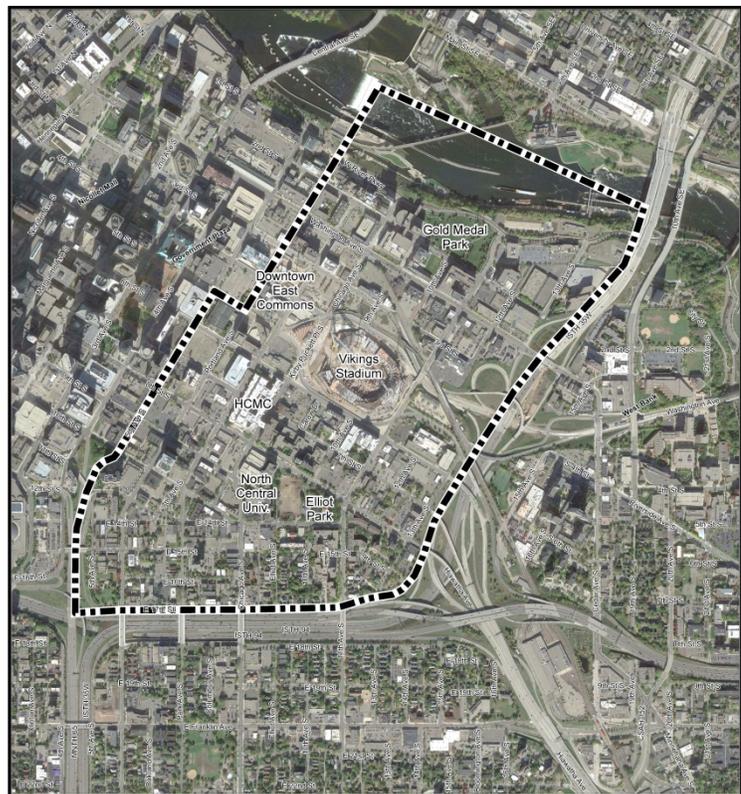
The City of Minneapolis Community Planning and Economic Development department commissioned Stantec and Perkins+Will to complete a market analysis assessing trends and influencers of redevelopment potential in East Downtown.

After decades of slow or even stagnant growth, East Downtown is undergoing rapid transformation. Fueled by increased interest in downtown living and a rejuvenated economy, evidence of this transformation can be seen in the area's scores of new housing units and high profile construction projects, including the Vikings stadium, Downtown East Commons Park, and the Wells Fargo campus. Along with a critical stop along the growing LRT system, new development has raised awareness of East Downtown to unprecedented heights, setting the stage for a period of substantial and sustained redevelopment.

This study is intended to help city planners and stakeholders better understand how market dynamics in East Downtown are responding to this change but also continue to influence it. This study uses quantitative analysis of market trends, field observations, and interviews with real estate professionals to understand key influencers driving growth among residential, retail, office and hotel markets in East Downtown.

For purposes of this study, East Downtown is defined as those blocks west of the Mississippi River, east of 5th Avenue South, north of Interstate 94 and west of Interstate 35W.

Each chapter of this report is summarized in following Executive Summary; the ensuing report contains the study's methodology and findings in entirety.



East Downtown Study Area



Study Area Boundary

December 2, 2014



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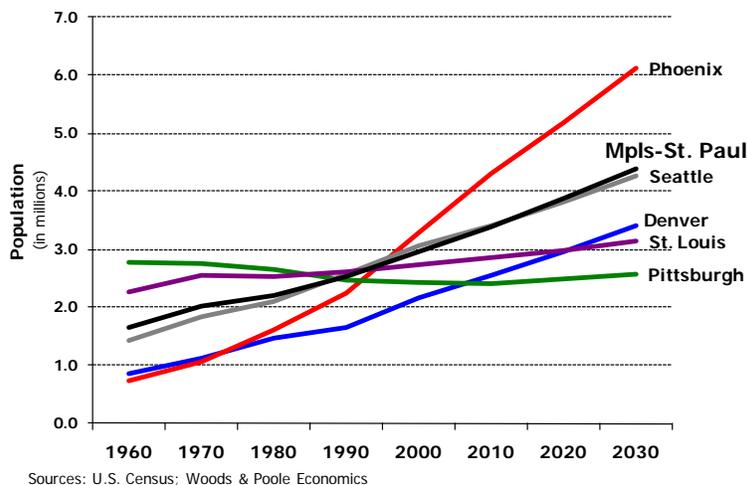
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CHAPTER 1: METROPOLITAN CONTEXT

East Downtown is part of Downtown Minneapolis, though development patterns in East Downtown differ from those in the Minneapolis core. Because Downtown Minneapolis is the most prominent business district of the Twin Cities, the continued growth and evolution of downtown neighborhoods, including East Downtown, are closely tied to the health of both the surrounding metropolitan region and the global economy. The following section identifies metropolitan trends that have shaped development of East Downtown and will continue to influence its market potential.

The Twin Cities Metropolitan Area has a very strong and diverse economy with one of the nation's lowest unemployment rates. This is fueling population growth on a scale that sets the region apart from its historic peers in the Midwest. **Growth is rooted in international migration into the region, which signifies strong links to the global economy.**



Metro Area Growth Comparisons 1960-2030

Available data also indicates that **Downtown Minneapolis attracts a high proportion of out-of-state movers into the Twin Cities.** This suggests that as the economy of the Twin Cities continues to grow, there will be ever increasing demand for downtown housing as new arrivals from outside of the state are drawn to downtown for its proximity to jobs, recognizable attributes, and cosmopolitan array of activities and amenities.

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CHAPTER 2: LOCATION ANALYSIS

East Downtown has significant locational attributes that create opportunities for continued investment and revitalization. First, it is adjacent to the core of downtown Minneapolis, which contains the region's largest concentration of office space, numerous public and private institutions, and important retail and entertainment activity centers. **Therefore, East Downtown is well positioned to attract users that strongly desire to be close to the downtown core but are unable to afford its rents.** To a large degree, this area has accommodated any such expansion of the downtown core over the years. However, the character of the area has never been able to fully achieve the same level of intensity and activity as the downtown core due to a lack of critical mass of development.

Second, **East Downtown has a level of accessibility unequalled within the region.** It has numerous connections to the interstate highway network and is served by the region's two light-rail transit lines as well as numerous local bus routes and regional trails. Moreover, some of these infrastructure investments are still new and have yet to be fully realized as part of real estate investment decisions. Therefore, many upcoming decisions will be made with the knowledge that regional accessibility has profoundly increased within East Downtown and will continue to increase with additional investments, such as the new entrance to Interstate 35W, the extensions of the Blue and Green light-rail lines, and the potential addition of downtown streetcars.

Third, East Downtown is laid out on a grid of streets with numerous block faces and sidewalks. Although the grid is disrupted by several large uses and blank-walled development, the **study area is still fundamentally an urban framework that is well positioned to accommodate new pedestrian-scaled development that aligns well with new transit investments.** Furthermore, the underlying grid pattern is a foundation for development that does not exist in most places within the region, which gives the area a distinct competitive advantage over other locales.

Fourth, **East Downtown is highly recognizable throughout the region, Minnesota, and beyond.** The former Metrodome and the Guthrie Theater are two examples of prominent facilities that have drawn people to the area from throughout the Upper Midwest. Therefore, building awareness among those responsible for major real estate investment decisions is not an issue. However, East Downtown does face challenges due to negative perceptions around particular uses within the area, such as the Hennepin County Juvenile Detention Center, and large "blank-walled" buildings such as the Hennepin County Medical Center. Numerous surface parking lots in this area also detract from the local streetscape.

Although East Downtown will become increasingly compelling as a location for real estate investment, there are some limitations that could confine future investment to small portions of the study area. **The primary limitation is the condition and function of north-south connections through the study area.** Park and Portland Avenues on the western edge of the study area currently serve primarily as arterials that funnel workers into and out of the downtown core. Therefore, Chicago Avenue can be seen as the best candidate to serve as the primary north-

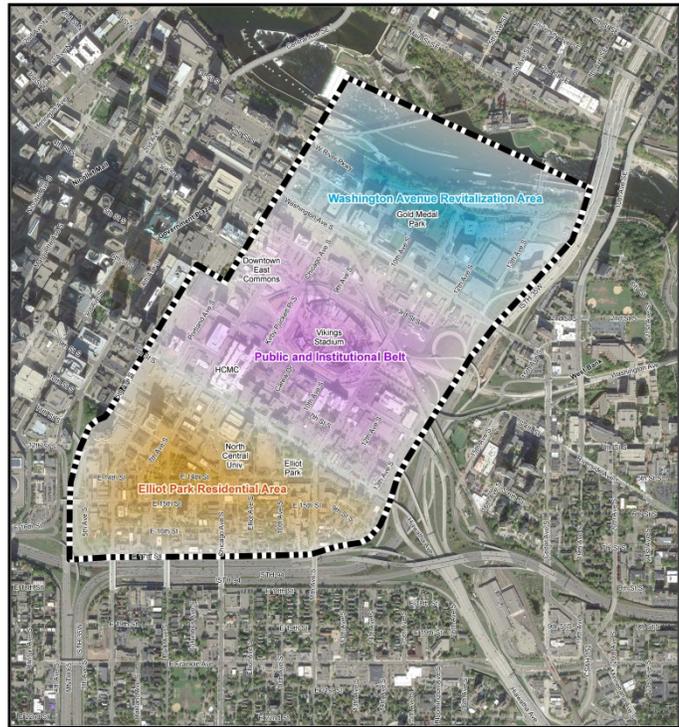


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south connection that links the southern end of the study area to its northern end and the Mississippi River. However, Chicago Avenue has a particularly challenging skew at South 9th Street in which traffic is shunted onto 9th Street as much as it is encouraged to continue northbound along Chicago Avenue. Furthermore, Chicago Avenue passes through the heart of the HCMC campus and is adjacent to the new Vikings stadium. Therefore, there is limited opportunity to accommodate new development that would strengthen north-south traffic patterns.

In addition to its transportation systems, East Downtown is defined by its predominant land uses. East Downtown can be thought of as three main character districts. The three districts spread west to east across East Downtown from the downtown core. "Washington Avenue Revitalization" describes an area dominated by high-end residential housing, restaurants, and service retail, which are oriented along Washington Avenue and the Mississippi River. The "Public and Institutional Belt" is immediately south of this character district, and encompasses large structures including the Hennepin County Medical Center, the Vikings stadium, the Hiawatha LRT tracks, and the Hennepin County Juvenile Detention Center. Finally, the "Elliot Park Residential" describe a neighborhood of primarily residential units that are more modest in building size and price than those in the Washington Avenue Revitalization. Other important uses that influence the character of this district are the AugustanaCare Campus, North Central University, and the adjacent Elliot Park.



East Downtown Character Districts



Study Area Boundary

December 2, 2014



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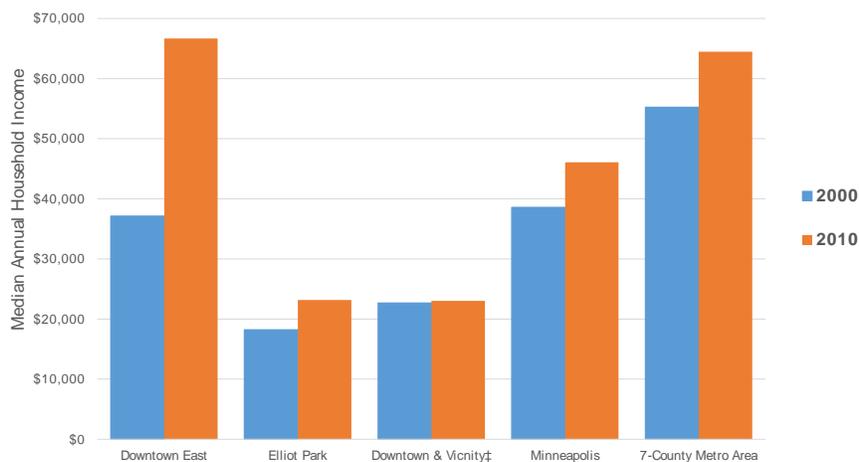
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CHAPTER 3: SOCIOECONOMIC ANALYSIS

Demographic and economic trends affect demand for new real estate development. The following section outlines key trends and identifies how the market will likely respond to future demand for housing, retail, and services in East Downtown. Historic and forecast data is analyzed at the neighborhood, city, and metropolitan levels for comparison purposes.

The neighborhoods in and adjacent to the downtown core are currently experiencing rapid population growth on a scale that is changing their character. This is no more evident than in the Downtown East neighborhood's Mill District where significant new development is contributing to an emerging residential character complemented by neighborhood retail, office, and entertainment uses. The volume and affluence of the growth in this area will likely cement it as a key node for commercial activity in the near future. Dominated by young professionals and empty-nesters/retirees, this area will likely become increasingly attractive to higher-end and national retailers who want to be proximate to the growing base of household wealth.

Elliot Park has also experienced population growth related to new residential development. However, this growth has been concentrated in three high-rise developments near its western border with the downtown core. To some degree, this has impacted the character of the neighborhood, but not to the level of the character change in the Mill District. Furthermore, **Elliot Park is a long established residential neighborhood in which its character is likely to evolve more slowly as opposed to the rapid change occurring in other downtown neighborhoods.**



† Includes the Minneapolis-defined neighborhoods of Downtown East, Elliot Park, Downtown West, North Loop, Loring Park, Stevens Square/Loring Heights, Cedar-Riverside, Nicollet Island/East Bank, Marcy Holmes, and University of Minnesota.
Source: US Census

Median Annual Household Income, 2000 and 2010

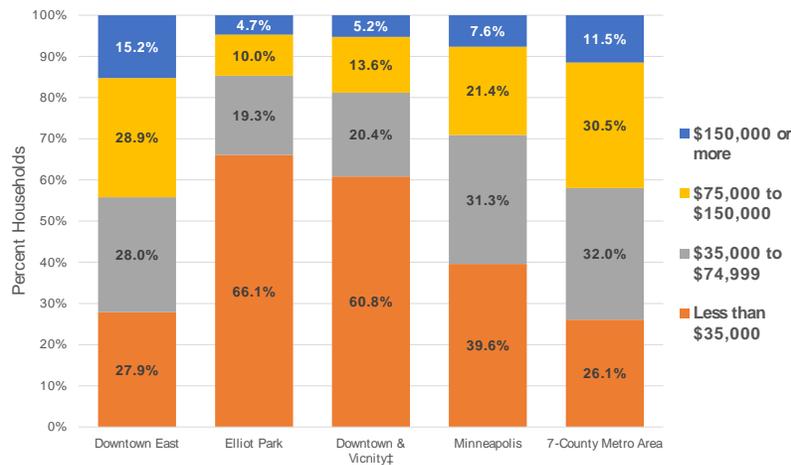
More importantly, Elliot Park has a higher concentration of lower income households and is more culturally diverse than Downtown East. The lack of spending power among residents will likely deter some types of real estate investment, particularly in the short term among national and



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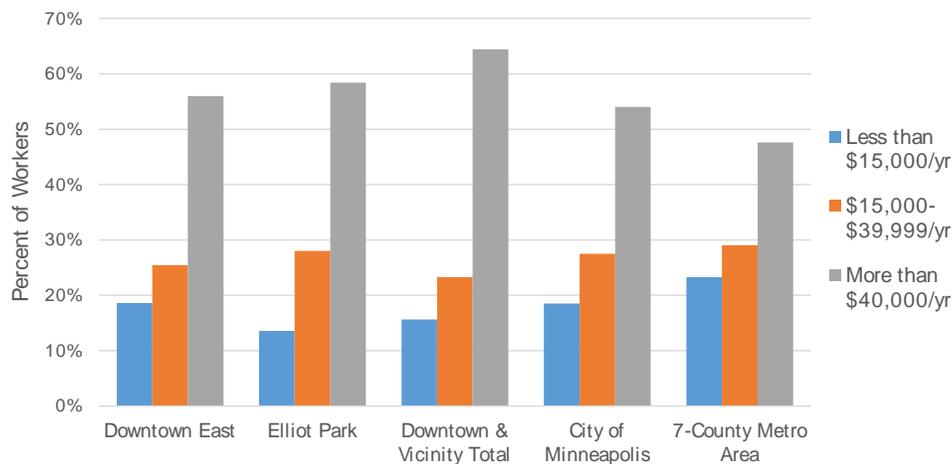
high-end retailers who often adhere to strict thresholds for trade area incomes. Regardless, the socio-economic composition of even long-established neighborhoods can change rapidly when favorable land values converge with an uptick in real estate cycles and significant new investments in public amenities.



† Includes the Minneapolis-defined neighborhoods of Downtown East, Elliot Park, Downtown West, North Loop, Loring Park, Stevens Square/Loring Heights, Cedar-Riverside, Nicollet Island/East Bank, Marcy Holmes, and University of Minnesota.
Source: US Census

Household Incomes by Income Ranges

Although Elliot Park and Downtown East represent disparate household income patterns, **both neighborhoods host a higher concentration of high-wage jobs (over \$40,000 per year) than in the Twin Cities Metropolitan Area as a whole.** In Downtown East, knowledge-based jobs are dominant, while the dominant sector in Elliot Park is healthcare services.



Source: US Census Bureau's LEHD Origin-Destination Employment Statistics program

Percentage of Jobs by Wage Level



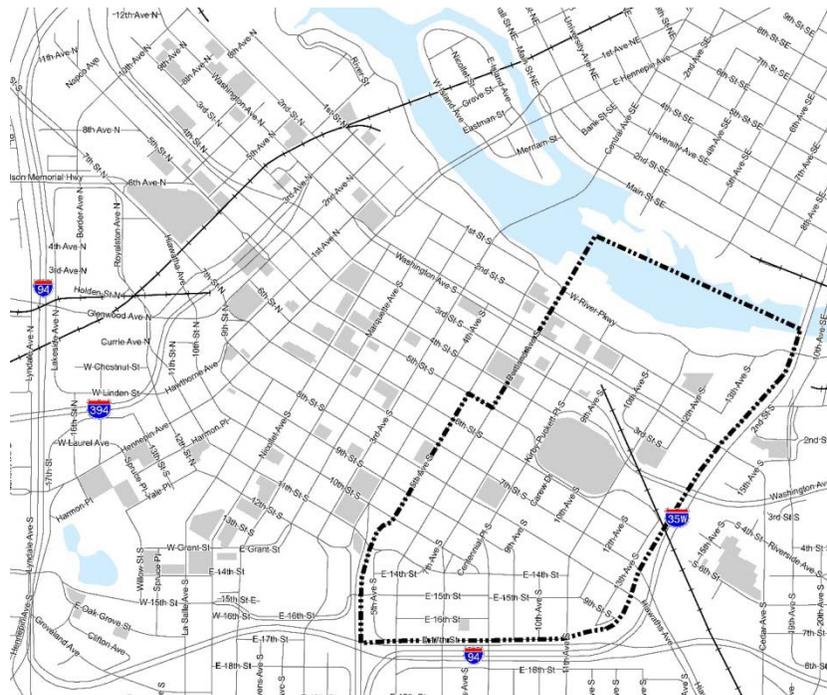
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CHAPTER 4: DOWNTOWN EXPANSION

East Downtown has been primed for redevelopment for many decades, but only recently has new development activity begun at an increasingly rapid rate and transformative scale. Although there are many reasons behind this, **a central driver of growth in East Downtown is expansion of the downtown core.** This section analyzes how the downtown core has grown and expanded over several real estate cycles, illuminating how East Downtown is positioned with respect to current and upcoming real estate cycles.

The downtown core of Minneapolis has historically been very compact relative to other downtowns in similar sized metropolitan areas. Efforts to expand the core in previous decades have been limited by the forces that have contributed to its compact nature. However, it appears that the downtown core is today poised for significant expansion. Analysis of recent development and investment patterns indicate that this is already beginning to occur. **As transportation infrastructure improves and the region continues to grow, pressure within downtown Minneapolis will only increase. Due to its proximity to the core, it is highly likely that the East Downtown study area will see continued investment consistent with the downtown core.**



Buildings permits over \$5 million in downtown Minneapolis since 2004

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CHAPTER 5: REAL ESTATE MARKET OVERVIEW

This section analyzes market data related to the major real estate sectors in downtown Minneapolis and, in particular, the East Downtown study area.

For-Sale Housing

Pricing of downtown housing has increased at a much more accelerated rate compared to the metro area. Median housing sale prices in downtown Minneapolis have rebounded since the Great Recession, and are now 17% above the 2007 market peak. New housing supply in downtown is severely restricted- evidence of pent-up demand. However, financing for new condominium development is hampered by developer liability laws. As the economy has improved, developers with strong bottom lines and a proven track record are beginning to forge ahead and test the favorable market conditions toward additional construction in this sector.

Rental Housing

The overall vacancy rate in downtown Minneapolis dropped from a peak of 9.8% in 2009 and has generally remained below 4.0% since 2011. Favorable demographics, growing interest in downtown living, and restricted supply of for-sale housing have supported the development of significant numbers of new apartments in the downtown. These have been almost entirely focused on affluent households, driving up rents. Given the current rate of development, short-term saturation seems likely in this market. However, previously mentioned fundamentals will help support long-term demand for rental housing that is well-located and well-positioned in downtown.

Retail

In late 2010, the average vacancy rate in East Downtown hit a low of approximately 2.0%, indicating a tight supply of available retail space. Since then, the vacancy rate has climbed to over 7%. Large swings in the vacancy rate in East Downtown are due to the relatively small universe of retail space; small shifts in occupied space at one or two properties can result in fairly large percentage changes in vacancy. As more housing is introduced into the downtown, there will be increasing demand to locate neighborhood retail at the most visible and accessible locations. In some instances this will necessitate construction of new retail space, though development costs will likely limit this growth to only the most desirable of locations.

Office

The average office vacancy rate for East Downtown is 16%, well above the broader downtown vacancy rate of 10% and the metropolitan rate of 9%. Slow rates of new office development over the past several years are rooted in both short-term trends (i.e., the economic recession of 2008-2009) and long-term structural change in the use of office space (i.e., greater efficiency in the use of office space).



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Hospitality

Occupancy and room revenues in the hotel industry have risen significantly in recent years, spurring demand for new development. Elite chains once limited to major markets have either repurposed existing properties or made serious overtures into possible new projects. Although only one hotel is currently under construction in downtown Minneapolis at the time of this writing (Hampton Inn), there are several other sites being considered for new development. If all proposed projects move forward, this would add over 1,000 rooms to the downtown Minneapolis market.

Institutional

The big three sectors that make up the institutional market are Government, Healthcare, and Education. East Downtown has a large concentration of institutional uses, many of which have recently undergone expansion, such as the Hennepin County Medical Center. It is difficult to predict how changing market trends will affect future institutional development because projects tend to be very large relative to most private sector investment and rising land prices often precludes institutional growth. Because of the political and logistical complexity in re-locating or renovating large institutions, growth in this sector that has not already been identified is unlikely.

CHAPTER 6: INTERVIEWS WITH REAL ESTATE EXPERTS

Previous sections describe factors influencing development potential in East Downtown: demographic characteristics, employment structure, land use and transportation patterns, current market dynamics, and recent development momentum. To augment these findings, the research team interviewed real estate experts familiar with East Downtown to solicit their impressions of its future development potential. The interviews provide insight into the issues and concerns of those actively engaged in development.

The interviews were analyzed for key themes relevant to East Downtown and summarized below. It should be noted that the comments and opinions summarized in this chapter are not necessarily those of the report's authors. Key themes included:

General Reactions: Interviewees agreed East Downtown is undergoing a remarkable renaissance driven by the development of Downtown East Commons, the Vikings stadium, and the Wells Fargo office complex. Interviewees were generally bullish about the area's potential to sustain on-going growth, especially among blocks in the northern portions of the study area.

Real Estate Markets: Most interviewees felt that housing would be the major driver of growth in East Downtown. The increasing popularity of downtown living, scarcity of developable space in other downtown neighborhoods, and limited growth potential among other real estate sectors were key factors in these opinions.



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Barriers: Downtown East experiences physical and psychological barriers. Physical barriers include the uninviting pedestrian realm, especially as it connects to the downtown core. Psychological barriers include its poor reputation. Several interviewees noted the importance of programming the Downtown East Commons Park to include year-round activities friendly to families and neighborhood residents.

Transportation: Downtown East has high connectivity in the metropolitan region, but its character suffers from freeway entrance and exit ramps and lack of a gateway feel. Many felt the presence of the Blue and Green Lines to be a boon to the area.

Public Realm: Interviewees generally felt the area's public realm to be poor and needing upgrades. Sidewalks, green spaces (including parks and street trees), and skyway connectivity were viewed as important enhancements.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

This section builds upon previous analyses and findings to create a more complete picture of which market trends will most profoundly affect East Downtown in the coming years. Ideally, a richer understanding of market trends will help identify where and what types of public intervention are needed most to catalyze investment, or, conversely, where new controls and policies may be needed to protect existing assets in the face of rapid change.

The section begins with high-level calculations that attempt to quantify market demand in order to provide a basic understanding of the potential magnitude of change in the foreseeable future. From there, key conclusions are drawn regarding the short and long-term development potential in East Downtown, which is then followed by strategies for how to best navigate such market forces.

Housing Demand

Future housing demand could support approximately 3,200 new housing units in East Downtown through 2030. Close to 60% of the estimated housing demand for East Downtown will be from households with incomes that generally cannot afford most types of new housing without some form of public involvement. Therefore, approximately 1,800 units of this demand may not be met without greater public support through policy change or financial assistance. If private sector developers continue to only focus on households with incomes able to comfortably afford market rate rents, then demand can support approximately 1,300 units over the next 15 years.

Retail Demand

Based on forecasted growth in consumer dollars through 2030 in the East Downtown study area, it is estimated that 150,000 square feet of retail space could be supported. Not all of this potential growth will result in the development of new retail space because there is a significant



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amount of underutilized retail space currently in the study area that could be renovated in order to accommodate this growth.

Office Demand

A little over 100,000 square feet of new office space can be supported in East Downtown through 2030. This is less than 10,000 square feet per year, a very small amount of space given downtown's long history of being able to accommodate significant office development. However, this reflects economic trends reducing employers' needs for office space, and the oversupply of office space in general, which will likely increase in the near future.

It should be noted that this assessment does not take into consideration the potential that a large single-user office building could be built in East Downtown.

Hospitality Demand

Downtown hotel occupancies have risen dramatically since 2009 and are now at levels that typically support new development. Not surprisingly, there are numerous proposals for new hotel projects in the downtown and even within the East Downtown study area. The forecast for increased long-term hospitality demand is strong. Specific examples of new or enhanced room night generators include the new Vikings stadium, Downtown East Commons Park, the new HCMC outpatient clinic and surgical center, a renovated Target Center, a renovated Nicollet Mall, and a consolidated Wells Fargo campus. Other potential room night generators that could increase the demand for hospitality include a new MLS stadium, Minneapolis Convention Center improvements and/or expansion, and a growing downtown household base that would generate demand for family-based leisure travel.

Key Findings

Overall, the short and long-term market demand for new development in the East Downtown study area is strong. This should come as no surprise to those who pay close attention to downtown trends. However, a broad statement proclaiming the potential of an area like East Downtown masks the fact that opportunity is not evenly dispersed throughout the study area. Differences in market demand can be based on a variety of factors, such as location, type of land use, market timing, competition, to name but a few.

The following are key findings and conclusions regarding important market trends affecting East Downtown.

Downtown Minneapolis is thriving. Since 2000, its population growth has been remarkable and in many ways equals the growth experienced in many large, fast growing suburban communities. The reasons for this are numerous. First, the population growth of the past 15 years has resulted in more neighborhood amenities in the form of shops, stores, and services, all of which, when in place, help attract more residents. Second, the Twin Cities metropolitan region is thriving as well.



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Since 2010, the Twin Cities metropolitan area has added more population than any other Midwestern metro area, including the much larger Chicago and Detroit regions. Third, there is a clear cultural trend favoring walkable/bikeable/mixed-use neighborhoods and downtown with its small blocks laced with sidewalks and inherent mixture of activities is well positioned to capture growth driven by this demand. Fourth, long-term public investments in the downtown are starting to pay significant dividends. This is particularly evident for neighborhoods that line the Mississippi River, which include portions of the East Downtown study area. The City of Minneapolis helped formulate a vision to transition the riverfront from an obsolete industrial landscape into a recreational and cultural amenity that would be the basis for additional private investment and eventual neighborhood revitalization. Although the process started many years before the first new residents and businesses began to move into these neighborhoods, it is now starkly evident just how much these areas have underscored a thriving downtown.

Demographic trends are very favorable for downtowns. The two largest age cohorts, Baby Boomers (those born between 1946 and 1964) and Millennials (those born between 1982 and 2000) are currently in life stages characterized by high mobility and few young children at home. Therefore, downtown living, often associated with low maintenance housing (e.g., no private yard) and proximity to entertainment districts, has a strong appeal among these age groups. Moreover, favorable demographic trends when combined with strong economic growth can greatly enhance the demand for downtown living. For example, newcomers drawn to a region for employment often look first for housing in the downtown because it is a high profile area and convenient to a large concentration of jobs.

East Downtown is receiving significant public investment that is unlocking substantial private investment. This began with the opening of the Blue Line LRT in 2004. However, since 2014 additional public investment has begun to accelerate: the addition of the Green Line LRT has greatly expanded the reach of the transit system in 2014; the new Vikings stadium is currently under construction; the Downtown East Commons Park, the HCMC outpatient specialty center, and reconstruction of Washington Avenue west of 5th Avenue all will begin later in 2015. The immediate impact of these investments can be seen in the new Wells Fargo campus and several other redevelopment projects in East Downtown. Although there is and will continue to be debate as to which types of public investments catalyze which types of private investment, it is beyond doubt that the profile of East Downtown has been substantially raised in recent years and that significant attention is being given to the area among all types of private interests. Interviews with real estate experts clearly underscored this fact. Every one interviewed felt that the area is in the process of a remarkable transformation and that property throughout the study area is being evaluated and even beginning to change hands in anticipation of new development opportunities.

East Downtown is highly accessible, especially compared to other downtown neighborhoods. The regional highway system connects into East Downtown from several points. The transit system directly serves the area. It is adjacent to the downtown core with existing, direct sidewalk



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connections and the potential to easily expand the skyway system into the neighborhood unlike other downtown neighborhoods.

There are three distinct character districts within the East Downtown study area each with unique circumstances influencing future development potential: 1) the Washington Avenue Revitalization district, which is north of 3rd Street South; 2) the Public and Institutional Belt, which is between 3rd Street South and 8th Street South; and 3) Elliot Park Residential district, which is south of 8th Street South. The Washington Avenue district has been undergoing significant revitalization for over 15 years and continues to be the focus of significant private sector investment due to its proximity to the Mississippi River, historic elements, and connectedness to the University of Minnesota. The Public and Institution Belt is often characterized as a “no man’s land” because of its plethora of parking lots and large structures (e.g. HCMC and stadium) that inhibit pedestrian activity. The Elliot Park Residential district is a diverse community that has been historically cut off from significant investment because of real and perceived isolation related to poor or disrupted physical connections and a negative reputation. It is notable that each character district is defined by east-west boundaries. This is because the psychological connections linking the north end of East Downtown to its south end are poor and the roadways that provide direct access to and from Interstate 94 are lined with large, imposing structures and serve such a singular purpose that they physically and psychologically cut off each district from one another.

There is a visible trend that significant property investment has begun to spill outside of the core downtown and into surrounding neighborhoods, including East Downtown. The downtown core, anecdotally defined as the existing skyway system, captured an overwhelming proportion of property investment prior to 2000. Since 2000, however, there has been a clear pattern of significant property investment expanding into adjacent neighborhoods. This is a strong indicator that the downtown core is beginning to expand, and, given the location of East Downtown and the level of public investment occurring, is well positioned to accommodate any continued expansion.

Multifamily housing will be the dominant land use in East Downtown. Reasons housing will remain dominant are related to strong forecasted growth over the next 15 years, favorable demographics as highlighted above, the presence of an untapped middle-income market, and limited demand from other real estate sectors. In the short term, the apartment market, in particular market rate product, is currently very strong with thousands of units proposed or under development throughout downtown, including East Downtown. Nevertheless, market rate apartments will inevitably reach temporary saturation, which will cause development to slow down. However, at the same time, demand for ownership housing, specifically condominiums, is increasing rapidly and could become the primary driver of development in East Downtown. However, there are some concerns that, despite increasing demand brought on by limited supply and increased prices, there are few developers willing to develop condominium product because financing is being hindered by State laws related to developer liability. This artificial restriction on the market could result in a greater willingness among developers to work on more projects targeted to the middle-income market. However, that will remain a big question mark



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as middle-market housing typically cannot achieve high enough rents to support new construction and thus it requires a much more complex development process and need to find “gap” financing. Moreover, many property owners with an interest in selling to a developer may see any market preferences for middle-income product as merely temporary and set land prices at a rate that can only be supported through top-of-market rents.

Based on interviews with real estate experts, there is not a lot of room left north of Washington Avenue for new housing development. Therefore, any new development will likely be south of Washington Avenue. Surrounding the Downtown East Commons Park is the most logical location for higher-end product, though there is the potential that any new office development would likely gravitate to this area and may outbid residential. Some market observers have suggested that Portland Avenue extending south from the Downtown East Commons Park could become a viable residential corridor to handle future demand, especially if the streetscape, public realm, and traffic patterns were all improved. In particular, this area was considered to be a potential market for more middle-income product because land values are currently somewhat lower in this part of East Downtown. Reasons for citing Portland Avenue as a potential location to focus development are that there are a number of properties along the corridor with willing sellers, it is just far enough from HCMC to not be directly impacted by emergency vehicle noise, and it offers the best connection to both the Downtown East Commons Park and the Mississippi Riverfront Park.

In the heart of Elliot Park, where land values are the lowest in the study area, smaller-scale in-fill projects, such as attached townhomes, appear to be the most politically acceptable concept given the existing low-rise character of much of Elliot Park. However, current market demand for new development in Elliot Park is impacted by its lack of retail amenities, lower household incomes relative to other downtown neighborhoods, and the fact that there has been sufficient land in other downtown neighborhoods to accommodate growth.

New retail development in East Downtown will primarily follow new housing development, be limited in size and scale, and be neighborhood-oriented. Because Nicollet Mall will retain its position in the downtown as the primary location for any retail with a regional draw and the Warehouse District/North Loop will continue to be the primary entertainment area, it is unlikely that East Downtown will emerge as a new large-scale retail district. Therefore, any retail growth will be contingent on the number of residents, employers, and visitors to East Downtown. Undoubtedly, East Downtown has some significant attractions that pull visitors into the area. However, demand calculations that factor in visitor and employee counts as well as the number of residents will only be able to support 150,000 square feet of new space through 2030. To put this in perspective, this would only be about six blocks worth of street level retail.

As mentioned previously in this report, Washington Avenue is the only corridor within the East Downtown study area with any significant retail. As demand for more retail increases with household growth, it will likely continue to capture a majority of demand because of its proximity to an established base of affluent households, high traffic counts, access to Interstate 35W,



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connections to the University of Minnesota, and supply of vacant land to accommodate new retail development.

Secondary to Washington Avenue, other possible locations for retail activity that may emerge would be frontage along the Downtown East Commons Park, along Portland Avenue (if it is enhanced to attract development), and adjacent to HCMC, though this would be a small center focused on lunch-driven food concepts and convenience services. In terms of retail activity fronting the Downtown East Commons Park, there will be an opportunity to potentially capture destination retail due to activities occurring within the Park or the Vikings stadium. Anchor uses would be restaurants and possibly some ancillary retail, such as gift shops and other small boutiques that are supported by casual visitors looking to extend the destination experience. However, this is heavily predicated on the programming of the park. If the park remains mostly passive, any retail around it will need to be supported mostly by nearby employees and residents since visitors will be a secondary source of patronage.

Confounding the retail situation is that the industry is undergoing rapid change as retailers adapt to an increasingly virtual society. In order to survive and thrive, retailers have to offer customers an experience that is decidedly non-virtual. For durable or luxury goods, where people are apt to comparison shop, this means either appealing to the human senses of touch, taste, and smell or creating a communal realm where an experience can be shared. However, for non-durable or perishable goods, proximity and convenience will remain paramount and it is this type of retail that will be in demand in East Downtown.

Multi-tenant office space of any significant size is unlikely to be developed in East Downtown.

Calculated demand for new office space in East Downtown through 2030 is slightly more than 100,000 square feet, which is a small office building by modern downtown standards. The lack of substantial demand is based on forecasted employment growth, an excess supply of office space, and trends toward less space needed per office worker.

This finding is corroborated by the fact that nearly every real estate expert interviewed as part of this study stated that they did not think office uses would be a significant element of future development in East Downtown. Many thought that the Wells Fargo campus, which is currently under construction, was the result of very unique circumstances and would likely not be duplicated in the near future. Others added that the excess supply of space created the new Wells Fargo project as well as the retrenchment of the Target Corporation will create enough excess supply of space to dampen any future demand for new space into the foreseeable future. Still others added that demand for office space is highly sensitive to access to the skyway system and with excess supply in the downtown core growth is unlikely to occur in East Downtown.

A low forecast for growth is also corroborated by the fact that office development has slowed precipitously in recent years from its 40-year average. Beginning in the late 1960s as the national economy switched from an industrial economy to a post-industrial economy, millions of square



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feet of new office space were built in downtown Minneapolis. Between 1970 and 2005, downtown average almost 750,000 square feet of new office space per year. Now that adaptation to a truly digital work environment is becoming more complete, concepts of where we work and how we use work space are evolving rapidly. Hastened by the recession, companies are dramatically scaling back their office space. Between 2005 and 2014, downtown Minneapolis average 6,000 square feet of new office space per year. Undoubtedly, more office space will be constructed in downtown Minneapolis. As matter of fact, several new projects are currently under construction. Nevertheless, the trend is toward a profoundly less amount of office space.

Although calculated demand is low, it should be noted there are several attributes to East Downtown that may attract future office development. First, it is adjacent to the downtown core and could easily accommodate expansion of the skyway system. Although the Wells Fargo project will be connected to the skyway system, it will be somewhat distant from the core where many skyway level services exist. However, there are portions of East Downtown that would be closer to denser segments of the network. Second, the transit station may become a draw for office uses. Third, the potential to overlook the Downtown East Commons Park may be a draw as well.

Hotels will compete with housing for certain sites in the short term. The hotel market is very hot at the moment driven by strong occupancies and rising revenues. There are multiple projects being considered for East Downtown, including two proposed projects close to the new Vikings stadium as well as discussions of another project along Portland or 5th Avenues closer to the downtown core. In addition, several other sites are proposed or underdevelopment in the downtown core and North Loop. This current round of hotel development, in all likelihood, will satisfy hotel demand for a number of years.

Hotels will gravitate to two or three areas within East Downtown, but outside those areas, demand will be weak. Currently, the new Vikings stadium and Downtown East Commons Park is generating significant hotel interest. Clearly, close proximity to the new stadium will generate intense demand during event days. Furthermore, as the new stadium attracts high profile events, such as the Super Bowl and the NCAA Final Four, this will increase opportunities for hoteliers to capture significant revenues and balance out weaker demand during non-event days. The area along 5th Avenue and Portland Avenue south of the Armory presents more stable long term demand in that this area could become a gateway into East Downtown and be better positioned for new connections to the downtown core through skyway and/streetscape enhancements.

Recommended Strategies

With so many forces influencing market demand for new development in East Downtown, below are a number of recommended strategies that would help planners and stakeholders to better guide demand and potential change.



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Strengthen and Improve Key North-South and East-West Corridors through East Downtown

East Downtown is already largely defined by the function and character of existing corridors. Unfortunately, it is not positive since these corridors generally function to separate and isolate the area. Consider focusing on strategic corridors that better connect the different character districts to one another, to desirable amenities, to greenery, and to economic opportunity in the downtown core. Improved connections will greatly enhance the potential to attract future development.

Washington Avenue is being reconstructed into a complete street, which is critical. Also consider improving a north-south route, such as Portland Avenue, and an additional east-west route that goes directly into the downtown core.

Diversify Housing Choice

Downtown population growth has been impressive over the last 15 years. However, certain demographics have been largely left out of this growth, namely older age groups, families with children, and lower-income households. More housing diversity would help to not only attract more newcomers into the downtown who can take advantage of transit and employment opportunities, but it would also allow existing residents to remain in the downtown should their life circumstances change.

A commitment to providing greater housing diversity is not easy. It will likely require some form of government intervention either through policy changes or financial assistance or both.

Greening the Area

Despite East Downtown's many positive attributes that are positioning it for dramatic future growth, lack of green space along its corridors in both the public and private realm stick out as being a very stark reminder of how the area has generally been neglected for many years as parking lots and large institutional uses dominated the landscape. With housing being the primary driver of future growth, greening of the public realm will be essential for attracting investment. There already are several key open spaces in East Downtown (Elliot Park, Franklin Steele Square, Mississippi Riverfront Park, Gold Medal Park) and the forthcoming Downtown East Commons Park. However, these areas need to be linked with green. Also consider linking East Downtown with the downtown core and Nicollet Mall.

Heavily Program the Downtown East Commons Park

The Downtown East Commons Park needs to be heavily programmed to make sure it is active and vibrant. Without consistent programming, the park is at risk for becoming passive and underutilized. Although passive parks play a key role in the broader park network, Downtown East Commons Park is a central location and a gathering spot and the uses that surround it need to interact with it and feed off of one another vitality.



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Integrate the new Vikings stadium into the Neighborhood by Finding Ways to make it an Indoor Extension of Downtown East Commons Park

The new Vikings stadium is widely regarded by real estate experts as having a negative impact on development in East Downtown. It is large, difficult to get around, and has very little interaction with the street, except on event days. One of the experts interviewed as part of this study noted that during non-event times the stadium should be integrated into the neighborhood as an indoor extension of the adjacent Downtown East Commons Park. This would make the stadium a greater part of the neighborhood and community, which would potentially make it an asset and amenity and not just a landmark everyone is familiar with.

Work with HCMC on a Health District Plan

HCMC is by far East Downtown's largest employer, occupies numerous blocks, and is strategically located between Elliot Park and the northern half of East Downtown. Unfortunately, it is widely considered to be a detriment to new development because most of its buildings are large and not oriented to the street in any positive way. Furthermore, arrival of emergency vehicles (ambulance or medivac) is a disturbance to certain nearby uses. Nevertheless, HCMC should be considered an asset. Healthcare is becoming an increasingly important element to our economy and helping HCMC succeed would be good for East Downtown. A health district plan can identify steps to positively leverage this asset to benefit the surrounding community.

Focus on Sidewalks

In addition to greening the public realm and streetscape as much as possible, sidewalks should be made a top priority. East Downtown is already connected physically to the downtown core. However, the sidewalk experience appears to be a huge detriment as many of the sidewalks are poorly maintained. By improving the sidewalks through better maintenance, this would better connect East Downtown to the core. Furthermore, as redevelopment occurs in East Downtown a program to widen sidewalks would distinguish the neighborhood from other downtown neighborhoods and strengthen its relationship with the core.

Create Gateways at Key Locations

Elliot Park has a gateway at 10th Street and 4th Avenue. However, nowhere else in East Downtown is there an obvious gateway that helps define its borders and identity. With the rerouting of the freeway entrance from Interstate 94, there is an opportunity to create a gateway where traffic will focus to help with creating a sense of place.