East Downtown: What will it take to achieve higher and better uses?

Urban Land Institute

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How did we get here?

- **1980**: New Metrodome, no development
- **1990**: Prohibition on new commercial surface parking lots
- **2000**: Introduction of LRT
- **2010**: Rezoning
- **2013**: Proposed Ryan development and park

**Events**:
- Downtown 2010 Plan
- Elliot Park Neighborhood Master Plan
- Downtown East/North Loop Master Plan
- East Downtown Parking Lot Study
- Stadium design and approval
East Downtown Parking Lot Study
**Objective:** Create a toolkit to enable conversations in a common language among developers, landowners, government and the public

1. **Identify Barriers to Redevelopment**
   - Build shared understanding of existing conditions
   - Identify key economic decision drivers

2. **Develop Market-Based Solutions**
   - Estimate “bottom line” impacts of changes to economic drivers
   - Evaluate impact of potential policy changes
East Downtown is seemingly well-located for redevelopment.
Today, surface parking lots dominate the area leaving it largely underutilized and unattractive to other investment.
Introduction of LRT, the new Vikings Stadium, and Ryan Co.’s proposed development create new opportunity in East Downtown.
How to Separate Fact from Fiction

The Scope

Compilation of Base Property and Market Data

Fact-Finding Interviews
- Parking lot operations
- Developers/real estate experts
- City Assessor
- Technical City staff

Conceptual Proforma Analysis

Case Studies

Policy Options
**Current Parking Uses:** There are three primary categories of surface parking lot owners with varying objectives and return expectations.

<table>
<thead>
<tr>
<th>Primary Objective</th>
<th>Parking Company/Family-Owned</th>
<th>Developer-Owned</th>
<th>Employer-Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Objective</strong></td>
<td>Long-Term Income</td>
<td>Defrayal of Hold Period Costs</td>
<td>Employee Benefit</td>
</tr>
<tr>
<td><strong>Return Expectation</strong></td>
<td>High</td>
<td>Break Even (+)</td>
<td>Break Even (+)</td>
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</table>
East Downtown Vision
Connected to surrounding neighborhoods, including Elliot Park, the Mill District, Downtown, and the University
Characterized by mid- to high-density development that combines residential, office, hospitality, and retail.
With ground floor commercial uses along Washington and Chicago Avenues and Fifth Street.
Plus **transit-oriented development** and denser, more high-rise development than has traditionally been seen in Minneapolis.
With structured parking either below or embedded within mixed-use development
Redeveloped with a pedestrian friendly streetscape.
Redevelopment Scenarios
Two potential redevelopment scenarios for surface parking lots in East Downtown test the application of the vision.

**Scenario 1: Thrivent Lot**
- 2.18 acre parking lot
- 460 parking spaces
- 982,000 – 1,473,000 SF office

**Office Development on an Employer-Owned Lot**
- 2.18 acre parking lot
- 460 parking spaces
- 982,000 – 1,473,000 SF office

**Scenario 2: Smith Bros. Lot**
- .62 acre surface lot
- 118 parking spaces
- 198,000 – 288,000 SF residential

**Residential Development on a Family-Owned Lot**
- .62 acre surface lot
- 118 parking spaces
- 198,000 – 288,000 SF residential
Development can only occur when it creates a supportable land value for the developer.

\[
\text{Land Value for Development} = \text{Actual Market Value of Land} - \text{Excess Land Value/Surface Parking Value to Parking Lot Owner} - \text{Land Value for New Structured Parking} - \text{Cost for Replacement Structured Parking*} = \text{Value of Land to Developer}
\]

\[
= \text{Actual Market Value of Land}
\]

*if necessary
HR&A examined three case studies where parking lots were a predominant use.

1. Four mid-sized US cities with similar characteristics

2. New Jersey 2008 Urban Transit Hub Tax Credit Program

3. Pittsburgh Split Rate Land Use Taxation
Case Study 1: Mid-sized US Cities
# Seattle

## Summary
Industrial SoDo neighborhood adjacent to established Pioneer Square neighborhood

## Intervention
- 1999: New MLB stadium
- 2002: New NFL stadium
- 2009: Light rail extended, Master Plan for high density mixed-use

## Result
Rising land prices; replacement of surface parking lot with 700 residential units, ancillary uses
Cleveland

Summary

Slow growth throughout downtown 1990s-2000s

Intervention

- 1999: NFL stadium on industrial waterfront land
- 2004: Waterfront District Plan
- 2008: PPP to develop Flats East Bank

Result

First multi-tenant office building in 20 years opening in 2013, 95% pre-leased at high rents. Subsequent large mixed-use development envisioned.
Indianapolis

**Summary**

Robust mix of downtown uses near football, baseball, and basketball facilities.

**Intervention**

- Lucas Oil Field (NFL) rebuilt 2008
- Convention center expansion
- Built Cultural Trail
- 2012 Master Plan

**Result**

Public realm improvements and earlier master planning given credit for some new development.
Denver

<table>
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<tr>
<th>Summary</th>
<th>95% of Sun Valley lives in public housing. Remainder of neighborhood is industrial, old NFL stadium and parking lots.</th>
</tr>
</thead>
</table>
| Intervention | • 2001: New NFL stadium  
• 2013: Light rail extension completed, Master Plan adopted. |
| Result | Prior stadium had no impact neighborhood for 12 years. Results of light rail expansion and Master Plan too soon to tell. |
Sports facilities alone do not drive revitalization of distressed areas.

Master planning creates some certainty about direction for both the public and private sector.

Investing in the public realm – parks, trails, transit - can spur market demand.
Case Study 2: New Jersey Urban Transit Hub Tax Credit
Gap funding such as **New Jersey’s 2008 Urban Transit Hub Tax Credit Program** can catalyze development in areas of disinvestment.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Encourage transit-oriented, job-generating development in distressed cities</th>
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<tr>
<td>Qualifying projects</td>
<td>Must meet employment, investment size, proximity to transit station, affordability, sustainability, and net benefit tests.</td>
</tr>
<tr>
<td>Benefits</td>
<td>Up to 100% of qualified capital investments for non-residential and 35% for residential projects</td>
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</table>
The **Urban Transit Hub Tax Credit** program has generated demand in excess of allocation

**Tax expenditures**

$1 billion+ in tax credits for 21 projects

**Economic/fiscal benefits**

- Leveraged over $2 billion of private investment *
- 10K+ jobs

*Still requires underlying demand – spurred more residential than commercial so far.*
Case Study 3: Pittsburgh Two-Rate Land Taxation
Pittsburgh was uniquely successful among Rust Belt cities during the ‘80s. This may be partly attributable to a split rate tax system.

**Summary**

1913 to 1970: City taxes land at 2X improvements
1980: Commercial real estate vacancy at 1%

**Intervention**

Late 1970s-1980s:
- Public-private partnership launched
- Subsidies for new development: tax abatements, depreciation acceleration, historic tax credits + low interest rate loans
- City land tax 5x tax on buildings. With County and School District, total land tax 2X buildings
Pittsburgh was uniquely successful among Rust Belt cities during the ‘80s. This may be partly attributable to a split rate tax system.

**Result**

Significant new commercial development and some residential development occurred in Pittsburgh. Other Rust Belt cities decline.

**Explanation**

- Low vacancy + corporate and public leadership + incentives = commercial development
- Split-rate tax structure helped keep other taxes low to meet demand; 2001, reverted to single-rate tax structure
Tools to Incentivize Development
Our local economic and case study analysis suggest the value of exploring four tools to incentivize development in East Downtown.

1. Master planning
   Implementation and phasing strategy + Investment in the public realm (infrastructure, parks and streetscape)

2. Reducing impact of structured parking costs on developers’ pro-formas

3. Gap financing and establishment of public private partnerships to enable catalytic development

4. Decreasing surface parking lot owners cash flow
A public response should prioritize improving market conditions to enable the desired redevelopment to support positive land value.

- Master planning and investment in the public realm can boost the desirability of transitional areas.
Even after demand has been spurred, acceleration of development may require filling gaps in developer pro formas.

**Decrease Development Costs**

- Provide gap financing
- Abate taxes
- Create public private partnerships

Reduce costs

**PROFIT**

**COST**

**REVENUE**
Options to alleviate the impact of structured parking costs on development economics

- Examine potential to park off-site in underutilized parking structures
- Look to increased public transit use to decrease parking demand
- Rezone to remove/reduce onsite parking requirements
- Subsidize structured parking
Once demand has been spurred and development costs decreased, the public sector may move to attempt to decrease lot owner cash flows.

Neutral or Negative Results
- Pass through increased costs to commuters
- Loss of CBD competitiveness

Positive Results
- Tax increases on lots may provide fiscal flexibility
Plausible scenario for success in East Downtown

- Implementation and phasing plan for East Downtown
- Green Line operational & landscaping ordinances enforced
- Additional public realm improvements as necessary (i.e. parks and streetscaping)
- Watch Green Line ridership impact on parking demand
- Consider subsidizing parking construction, other means of reducing developer costs
Next Steps

Real estate strategy

Ryan development proposal

Park Committee

Small area plan update