
Minneapolis East Downtown Parking Lot Study

Prepared for the City Minneapolis,
Department of Community Planning and
Economic Development (CPED)

HR&A Advisors, Inc.



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East Downtown Parking Lot Study

Technical Memo #1

Revised: March 22, 2013



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MEMORANDUM

To: Beth Elliott, Community Planning and Economic Development – Planning Division

From: HR&A Advisors, Inc.

Date: March 22, 2013

Re: East Downtown Parking Lot Study: Technical Memorandum #1

On behalf of the City of Minneapolis' Department of Community Planning and Economic Development (CPED), HR&A Advisors is conducting a study that will:

- identify barriers to redevelopment of surface parking lots in East Downtown, and
- provide a toolkit to enable conversations among the public sector, developers and parking lot owners that may yield market-based solutions.

On March 4 and 5, HR&A traveled to Minneapolis for a kickoff meeting with the Parking Lot Study Technical Advisory Committee (TAC) and a series of stakeholder fact-finding interviews. Our early insights from this trip and other preliminary research are summarized in this memorandum, which is intended to provide a framework for analyzing the barriers to redevelopment as well as stimulate discussion about the TAC's vision for East Downtown and next steps for the study.

KICKOFF AND FACT-FINDING INTERVIEWS

On March 4, HR&A and the TAC held a kickoff meeting at CPED's offices to discuss the goals for the East Downtown Parking Lot Study and the stakeholder fact-finding interviews. In advance of the kickoff meeting, HR&A worked with CPED to coordinate the compilation of available base property and market data to create an inventory of East Downtown parking lots, including address, ownership, tax information, number of stalls and pricing. In addition, HR&A developed an understanding of the relevant contemporary policy and regulatory framework as well as the current development incentives utilized by the City of Minneapolis. Informed by this initial research, HR&A submitted a list of questions and discussion topics in preparation for the stakeholder fact-finding interviews. This list was discussed and refined during the kickoff meeting.

Directly following the kickoff meeting, HR&A conducted a series of fact-finding interviews with stakeholders in East Downtown, including:

- Owners and operators of parking lots,
- Developers of residential, office and mixed-use projects that are active in downtown Minneapolis, and
- The City of Minneapolis Assessor's Office.

Through these interviews, HR&A worked to gain an understanding of the position of current surface parking lot owners, engage local developers, and gauge the involvement of community and neighborhood groups in downtown's revitalization.

Below we present our preliminary findings and the implications for next steps.

Preliminary Findings: Surface Parking Lot Owners

For purposes of this study, we assume that the land value expectations of surface parking lot owners are based on the capitalization of annual cash flows, and that the assumed rate of capitalization accounts for anticipated risk and return. Our interviews reveal that there are three primary categories of surface parking lot owners with varying objectives and return expectations.

- *Parking Company/Family-Owned:* These owners' primary objective is to operate a profitable parking business that generates a secure revenue stream for the long term, e.g. for multiple generations of the same family. We assume that these owners have high return expectations based on the present value of future anticipated cash flows and the availability of alternative investment opportunities. Various interviewees report that these owners "don't know what else they would invest in if they were to sell" and, in light of the City of Minneapolis' prohibition on new commercial surface parking lots in downtown, will not be able to find local replacements for their portfolio, which likely impacts value expectations and the willingness to sell. Several interviewees suggested that some of these owners might be interested in joint venture partnerships with developers such that the owners could continue to operate the parking component of a vertically redeveloped site.
- *Employer-Owned:* While often benefitting from a modest revenue stream related to special-event parking, these owners' primary objective is to provide convenient and affordable parking for the benefit of their employees. These owners presumably have more modest return expectations; however, it is likely that an attractive sale price would compensate for both the present value of future cash flows as well as the cost of replacement parking for employees. To the extent that these owners could be convinced that there are viable transit options for at least some of their employees, they might also consider a sales offer developed by considering "comparable" local land sales.
- *Developer-Owned:* This category of owners consists of developers who have acquired property in anticipation of future development. The primary objective of their ownership is to use the cash flow generated by parking activities to defray the holding costs associated with the property during the predevelopment phase. These sites are primed for redevelopment and, absent a reversal in developer fortunes (or a very attractive sales offer), are unlikely to be sold.

Preliminary Findings: Redevelopment Options

Based on our interviews with local developers, East Downtown is perceived as an emerging area poised for eventual future development, but not necessarily the next location of major redevelopment activity. Perceived challenges to redevelopment include:

- Presence of large institutional uses (Hennepin County Medical Center, the Medical Examiner, Hennepin County Public Safety Facility) that, by virtue of their esthetics and layout, detract from area walkability;
- A virtually uninterrupted block of civic uses, lined by another virtually uninterrupted block of surface and structured parking along 4th Avenue and 5th Avenues that physically separate East Downtown from the central business district (CBD);
- Lack of a skyway connection; and
- Near total absence of established neighborhood amenities, including streetscape, retail, open space, etc.

Further, those familiar with downtown real estate market dynamics report a widely held "wait and see" attitude with respect to the area, particularly as it relates to the plans for the new Vikings stadium and potential adjacent mixed-use development.

In this environment, the City can add value by proposing a vision for sustainable redevelopment and inviting discussion of that vision’s feasibility. Such a vision plan should examine how East Downtown relates to the Mill District, the CBD, Elliot Park and the new Vikings stadium and consider a range of potential uses, including:

- Mid-rise residential (rental and condo)
- High-rise residential (rental and condo)
- Commercial office/Other commercial
- Not-for-profit/Institutional

Interviewees agreed that plausible sources of demand for these uses – in either the near or long-term – are most likely expanding entities already present in the region, e.g. growing corporations that might otherwise expand in the suburbs (c.f. the so-called Ryan Companies plan), some form of University expansion, perhaps through public-private partnership, or some form of expansion of the Hennepin County Medical Center (HCMC). A residual land value analysis of the redevelopment options based on market rents or sale values and operating costs will provide a baseline both for understanding currently supportable land value and for beginning a conversation about necessary changes in market conditions to enable higher land prices that will incentivize property sales.

Certainly, our interviews tended to confirm the hypothesis that an imbalance exists in East Downtown with the land value expectations of existing surface parking lot owners exceeding the currently supportable land value from redevelopment. The following chart outlines potential tools that could be used to balance the scale and incentivize redevelopment. Subsequent stages of analysis will examine the magnitude of impact and anticipated effectiveness of these tools.

| Decrease Parking Land Value | Increase Supportable Redevelopment Land Value |
|--|--|
| <ul style="list-style-type: none"> • Decrease cash flow <ul style="list-style-type: none"> - Rigorous enforcement of ordinances - New taxes - Legally sustainable revaluation | <ul style="list-style-type: none"> • Create new value <ul style="list-style-type: none"> - Public realm improvements - Transit improvements • Provide low cost financing • Abate taxes |

DEVELOPMENT OF VISION STATEMENT

On March 5, HR&A met with the TAC to discuss the preceding preliminary insights and to start to develop a vision for East Downtown. The following is a proposed vision statement based on this discussion:

Minneapolis’ Downtown is among the United States’ most vibrant central business districts. East Downtown, with its convenient transit access; proximity to a vibrant cultural and residential district, new parklands, the Mississippi riverfront, the University, and the Downtown office core; and status as the location of several major regional employers, is poised to be the City’s next vibrant mixed-use district. The City has undertaken a number of initial planning and policy efforts to encourage redevelopment, including the 2003 Downtown East/North Loop Master Plan, which makes prescriptions for a more walkable, vibrant urban area. This was followed in the summer of 2011 by a rezoning of East Downtown as a mixed-use area with no parking minimums, housing density limits or floor area ratio maximums. While surface parking lots continue to dominate large portions of the area leaving it underutilized and unattractive to other investment, the expansion of the LRT has the potential to catalyze redevelopment. Furthermore, there is an opportunity for the new Vikings Stadium to enhance the public realm and complement these redevelopment efforts. Goals for the redevelopment of East Downtown include:

- Connection to surrounding neighborhoods, including Elliot Park to the South, the Mill District to the North, Downtown to the West, and the University to the North-East;
- Mid- to high-density development that combines an overall mix of residential, office, hospitality, and retail uses as supportable based on market conditions. Development that includes ground floor commercial uses will be particularly encouraged along Washington

and Chicago Avenues and Fifth Street. There is a strong preference to maximize this transit-oriented development opportunity and promote denser, more high-rise development than has characterized most urban reinvestment in Minneapolis to date;

- Transition of parking from surface lots to structured parking either below or embedded within mixed-use development. Where possible, shared parking, particularly between event and week-day uses will be encouraged;
- A pedestrian-friendly streetscape.

NEXT STEPS

HR&A proposes the following next steps to move forward with the study:

- Work with the TAC to refine and finalize the vision statement for East Downtown
- Select 2 existing surface parking lots to illustrate the possible application of the vision for East Downtown and analyze the hurdles to redevelopment consistent with the vision
 - Collect financial data to examine the parking land value and supportable land value
 - Gather additional supporting data (appraisals, utilization of city owned parking ramps, land sale comps)
- Develop 3 case studies that explore the revitalization of downtown districts in which surface parking lots were once a predominant use and in which development has been successfully catalyzed
- Outline policy prescriptions that could begin to overcome identified hurdles

East Downtown Parking Lot Study

Technical Memo #2

Revised: August 9, 2013



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MEMORANDUM

To: Beth Elliott, Community Planning and Economic Development – Planning Division

From: HR&A Advisors, Inc.

Date: August 9, 2013

Re: East Downtown Parking Lot Study: Technical Memorandum #2

INTRODUCTION

Following the development of the Vision Statement for East Downtown, the Parking Lot Study Technical Advisory Committee (TAC) selected two existing surface parking lots and asked HR&A to illustrate the possible application of the vision for a vibrant mixed-use district to those lots. This entailed analysis of the hurdles to redevelopment consistent with the vision.

- **Vertical Development Scenario 1: Office Development on an Employer-Owned Lot**
The TAC selected a 102,678 square foot (SF), full-block surface parking lot owned by an East Downtown employer located south of the Armory between Portland Avenue and 5th Avenue South. The hypothetical vertical development analyzed on this lot is a 15-story Class A office complex (982,000-1,473,000 square feet).
- **Vertical Development Scenario 2: Residential Development on a Family-Owned Lot**
The TAC selected a 27,000 SF commercial, family-owned surface parking lot located in the southern portion of East Downtown in the Elliot Park neighborhood. The hypothetical vertical development analyzed on this lot is a 10-story market rate rental residential building (198,000-288,000 square feet).

To develop an understanding of the barriers to vertical development and analyze ways to incentivize the desired redevelopment, HR&A developed two conceptual pro formas that compare (1) the land value to existing surface parking lot owners to (2) the land value to a vertical developer (“residual land value”). HR&A then evaluated options that the City could pursue to overcome financial gaps and market failures, and to incentivize development.

These analyses employ assumptions developed by HR&A based on market research and interviews with local real estate professionals. The attached appendix details the methodology and assumptions underlying the two pro forma analyses.

KEY CONCLUSIONS

The two conceptual pro forma analyses confirm the hypothesis that the land value expectations of existing surface parking lot owners exceed currently supportable developable land value. This is the case in both Scenario 1 and 2. Indeed, neither scenario suggests that the lots have positive land value to a vertical developer based on current market conditions in East Downtown. The problem is simply exacerbated when one layers on the land value expectations of existing surface parking lot owners.

Tables 1A and B – Summary Analysis of Scenarios 1 and 2 Under Current Market Conditions

| Scenario 1: Office - Funding Gap | |
|---|------------------------------------|
| Land Value to Vertical Developer | (\$8.9) – (\$13.4) million |
| Expected Land Value to Lot Owner (Parking Value + Replacement Parking Costs) | (\$14.2) – (\$18.5) million |
| = Financial Gap | (\$23.1) – (\$31.9) million |

Negative values indicate a funding gap that must be filled to make the project feasible.

| Scenario 2: Residential - Funding Gap | |
|---|----------------------------------|
| Land Value to Vertical Developer | (\$1.2) – (\$1.8) million |
| Expected Land Value to Lot Owner (Parking Value) | (\$3.2) – (\$7.0) million |
| = Financial Gap | (\$4.4) – (\$8.8) million |

Negative values indicate a funding gap that must be filled to make the project feasible.

The analyses suggest that even if land were free, the two development scenarios would not be feasible until market conditions improve. Before addressing the expectations of parking lot owners, the first line in the preceding two tables needs to be positive. The public sector can play a role in making that first line positive: the City can employ tools to either increase project cash flow or decrease development costs. Potential tools include the following:

1. ***Amenitize East Downtown.*** Developers interviewed stated that they thought it unlikely that they could attract the type of residential and office tenants that would support the desired redevelopment of East Downtown. They cited a complete lack of amenities as the primary reason for that skepticism. The Downtown East/North Loop Master Plan, adopted in October 2003, provides a base framework to begin neighborhood amentization and placemaking. Adding value to the area through public realm improvements, Skyway connections and the articulation of an implementation and phasing plan that incorporates the new Vikings Stadium and surrounding development would help to enhance interest the area. Public support to improve market conditions would allow developers to more confidently underwrite rents at the high end of the downtown Minneapolis market.

The City might begin an initiative to amenitize the neighborhood at relatively low cost through rigorous enforcement of existing ordinances including landscaping ordinances, which provide an opportunity to improve the streetscape of the neighborhood and implement public realm improvements at no public capital cost.

Achieving Higher Rents

- ***Scenario 1 (Office):*** If office product in East Downtown were able to achieve a top of the market net rent of over \$20/SF, rather than the \$16/SF which we and market knowledgeable agree is the most that could be currently commanded, it would be able to support positive land value. Amenities could help achieve that rent and could help enable pre-leasing of at least 60%, which is required to secure construction financing.
- ***Scenario 2 (Residential):*** If high-rise residential product in East Downtown were able to achieve a top of the market monthly rent of approximately \$2.40/sf, rather than the \$2.10/SF we modeled, it would be able to support a positive land value.

2. *Abate Taxes or Provide Tax Increment Financing.* Either a tax abatement or TIF financing for new development would improve office and residential cash flows, increasing the supportable redevelopment land value. These tools would likely prove most effective to jumpstart the first phase of redevelopment described in a detailed vision plan for East Downtown: it will take time and increased momentum for project cash flows to fully benefit from the improved market conditions. A tax abatement could be structured as a partial abatement in earlier years that would be phased-out over a defined tax abatement period. Similarly the TIF, would provide upfront infrastructure financing for structured parking based on the net present value of discounted cash flows on a share of incremental taxes.
3. *Subsidize or Eliminate Structured Parking.* For both residential and office development, the structured parking needed to support the desired program places a significant burden on the development costs. Both products would be able to support positive land value if the cost to provide structured parking believed to be required by the market were subsidized or if the need to provide so much parking were eliminated/diminished, e.g. by provision of high quality transit options.

Tables 2A and 2B – Impact of Need to Provide Structured Parking on Land Value to Vertical Developer Under Current Market Conditions

| Scenario 1: Office - Vertical Development | Value/(Gap) |
|---|-----------------------------------|
| Value of Land for Office Development Program | \$3.3 - \$5.0 million |
| (Value of Land for Office Parking (770-1,155 spaces)) | (\$12.2) – (\$18.3) million |
| = Land Value to Vertical Developer | (\$8.9) – (\$13.4) million |

Negative values indicate a funding gap that must be filled to make the project feasible.

| Scenario 2: Residential - Vertical Development | Value/(Gap) |
|--|----------------------------------|
| Value of Land for 10-Story Residential Development Program | \$2.9 - \$4.2 million |
| (Value of Land for Residential Parking (181-263 spaces)) | (\$4.1) – (\$6.0) million |
| = Land Value to Vertical Developer | (\$1.2) – (\$1.8) million |

Negative values indicate a funding gap that must be filled to make the project feasible.

This strategy could be implemented were Public Works to assume the responsibility for providing parking, and development costs associated with constructing the structured parking shifted to the public balance sheet. Clearly, the policy viability of this cost shift would need exploration.

4. *Provide Gap Financing.* A number of gap financing structures could be utilized to cover all or a portion of the funding gap shown in the first row of Tables 1A and 1B. One such option could be a local tax credit available in transit-oriented districts akin to the Urban Transit Hub Tax Credit Program in New Jersey (see Appendix- Case Studies). As with the other three strategies discussed above, however, this strategy would probably be most effective if deployed in conjunction with efforts to amenitize and improve market conditions in the area that were themselves advanced as part of a comprehensive vision for the future of the district.

After addressing the viability of the desired vertical development, the City can examine ways to decrease the land value expectations of surface parking lot owners to bring them in line with supportable land value and

help incentivize development. To achieve this goal, the City can employ tools to decrease surface parking value to landowners and/or reduce replacement parking costs.

1. **Decrease Surface Parking Cash Flow.** Potential ways to decrease the surface parking cash flows include the aforementioned increase in operating expenses through a rigorous enforcement of ordinances such as landscaping requirements and/or through the introduction of new taxes. Enforcement of the landscaping ordinances provides an opportunity to improve the streetscape of the neighborhood and implement initial public realm improvements with no burden to the public sector. Taxes (sales and property) currently account for the largest portion of the surface parking lots' expense burden. However, given the relatively small dollar amount of the current operating expenses and taxes, any noticeable impact on the parking land value would require a significant percentage increase.

Furthermore, depending on how sensitive parking users are to increases in parking rates in Minneapolis, it is very plausible that surface parking lot owners will be able to pass along some or (most likely) all of the increased operating costs or taxes to parking lot users through higher parking rates. In this scenario, the higher revenues as a result of the increased parking rates will compensate for the increased operating costs, resulting in a net neutral impact on the parking lot owners' cash flow and land value expectations (although with positive fiscal implications).

Increasing Tax Rate

- **Scenario 1 (Office):** If tax rates were doubled on the office lot from \$166,000 to \$332,000, it would create an annual operating deficit of \$31,600.
- **Scenario 2 (Residential):** If tax rates were doubled on the residential lot from \$30,000 to \$60,000, it would decrease net operating income 9%, from \$120,000 to \$90,000 annually.

Enforcing Existing Landscape Ordinances

- **Scenario 1 (Office):** If landscaping ordinances were enforced to require 9ft setbacks, the parking area would be reduced by 11% or 50 spaces. Additionally, if operating costs were increased by \$10/space to accommodate the maintenance of extra greening, net operating income would decrease 38%, from \$134,000 a year to \$97,200 annually.
- **Scenario 2 (Residential):** If landscaping ordinances were enforced to require 9ft setbacks, the parking area would be reduced by 11% or 13 spaces. Additionally, if operating costs were increased by \$10 per space to accommodate the maintenance of extra greening, net operating income would decrease 17%, from \$120,000 a year to \$102,000.

2. **Reduce Replacement Parking Costs.** For the employer-owned surface parking lots, reducing the cost of the replacement parking would make a significant impact on the parking land value. In Scenario 1 for example, eliminating this cost would decrease parking land value by \$10.6 million.

| Scenario 1: Office - Current Use | Value |
|--|--------------------------------|
| Present Value of Future Cash Flows from Surface Lot (4%-6% Discount Rate) | \$3.6 - \$7.9 million |
| + Replacement Parking Costs | \$10.6 million |
| = Expected Land Value to Parking Lot Owner Parking Value (Parking Value + Replacement Parking Costs) | \$14.2 - \$18.5 million |

Reducing the cost of replacement parking could be achieved by locating the required employee parking spaces in existing underutilized parking structures elsewhere in Downtown, by fostering partnerships with vertical developers, or by Public Works assuming the responsibility and

development costs associated with building structured parking to replace redeveloped surface parking.

It is important to acknowledge that Public Works assuming responsibility simply shifts the cost from the private sector to the public sector, which would have its own set of feasibility challenges. The financial burden of providing additional parking should be weighed carefully against other potential incentives or programs. If parking lot owners were to partner with vertical developers through a land for equity investment they might receive either future cash flow that could subsidize replacement parking costs, or actual replacement parking in the new vertical development.

NEXT STEPS

HR&A recommends the following next steps to move forward with catalyzing vertical development in East Downtown:

- Present study findings and potential policy options to East Downtown stakeholder groups, including the local community and City groups who have a vested interest in affecting change and catalyzing development in the East Downtown area
- Evaluate the feasibility of potential policy prescriptions that could begin to overcome identified hurdles.
- Explore the opportunity to improve market conditions in East Downtown by incorporating the recently announced plans for the new Vikings Stadium and the Ryan Companies' planned redevelopment of the Star Tribune lots into a broader East Downtown Phasing and Implementation Plan.

APPENDIX
PRO FORMA ANALYSIS – METHODOLOGY & ASSUMPTIONS

To develop an understanding of the magnitude of the barriers to vertical development and analyze ways to incentivize the desired redevelopment, HR&A developed two conceptual pro forma analyses to compare the land value to existing surface parking lot owners to a residual land value for vertical development. For each vertical development scenario, HR&A developed a parking lot pro forma to establish a baseline parking value for the lot based on current use. We then estimated residual land value for the selected vertical development scenario and compared it to the baseline parking value. Based on the findings from these analyses, HR&A evaluated options that the City could pursue to overcome financial gaps and market failures and to incentivize development. Incentive options explored include increasing income streams from vertical development, reducing development costs borne by the developers, and incentivizing surface parking lot owners to pursue disposition or vertical development of unimproved lots.

Vertical Development Scenario 1: Office

Scenario 1 examines the feasibility of a 15-story office development on an employer-owned lot. The lot selected was a 102,678 square foot full-block surface parking lot owned by an East Downtown employer located south of the Armory between Portland Avenue and 5th Avenue South. The table below summarizes the current use of the lot and the illustrative office redevelopment at full build out.

| Current Use | Vertical Development |
|--|---|
| <ul style="list-style-type: none"> • 460 Parking Spaces • Primary Use: Employee parking (250 days) • Secondary Use: Event Parking (25 days) | <ul style="list-style-type: none"> • 15-story Class A office development • 982,000-1,473,000 square feet • 770-1,155 structured parking spaces |

Parking Pro Forma

Currently, the surface parking lot has 460 parking spaces that provide convenient and affordable parking for employees of the owner. The owner also benefits from a modest revenue stream related to special-event parking during non-business hours. It is assumed that an attractive sales price for the lot would compensate for both the present value of future cash flows as well as the cost of the replacement parking for employees.

In order to determine the parking value from the perspective of the current employer-owner of the surface parking lot, HR&A developed an illustrative pro forma and estimated the cost of replacement parking. Our analysis relies on the following key assumptions (also see Tables A-B):

- **Revenues:** The revenue assumptions were derived based on an interview that HR&A conducted with the parking lot owner and information posted on lot signage. Based on this discussion, it is assumed that there are three parking revenue streams each with different average rates and utilizations: (1) employee parking, (2) Viking game parking, and (3) other special event parking.
- **Operating Costs:** HR&A reviewed operating costs for surface parking lots with local Minneapolis parking lot owners and operators. The primary operating cost categories are snow removal, insurance, repair and maintenance, and parking management. It is assumed that the surface parking lots are unmanned but monitored daily and during special events. In total, it is estimated that these operating costs amount to \$85/space/year.
- **Sale and Property Taxes:** It is assumed that parking lot owners are subject to Minneapolis sales tax of 7.775% and property taxes. For purposes of this analysis, HR&A used the 2012 property taxes per the City Assessor’s Office.
- **Growth Rate & Discount Rate:** In order to determine the present value of future cash flows for the surface parking lot owner, HR&A capitalized the cash flows based on the perpetuity growth methodology. With this approach, the present value of the future cash flow stream is calculated by dividing the current cash flow by the difference between the discount rate and the perpetuity

growth rate. HR&A assumed a perpetuity growth rate of 2.3%, which is equivalent to the 2011-2012 CPI growth rate for Minneapolis. A range of discount rates from 4%-6% were used, accounting for a reasonable range of risk and return expectations for the surface parking lot owner based on the relative stability of the anticipated future parking cash flows.

- **Replacement Parking Required:** In a redevelopment scenario, it is assumed that all existing 460 parking spaces would need to be replaced. Based on interviews with local developers, it is assumed that the cost of structured replacement parking would be equal to hard costs of \$20,000/space + soft costs of 15%.¹

As shown in the following table, baseline land value for the full lot from the perspective of the surface parking lot owner is between \$14.2 and \$18.5 million, which is equivalent to \$138 to \$180 per square foot. The 2012 estimated market value from the City Assessor’s office was \$3.4 million or \$33 per square foot, i.e. at the low end of the value we estimate from event parking.

| Current Use | Value |
|--|--------------------------------|
| Present Value of Future Cash Flows (4%-6% Discount Rate) | \$3.6 - \$7.9 million |
| + Replacement Parking Costs | \$10.6 million |
| = Parking Value | \$14.2 - \$18.5 million |

Vertical Development Pro Forma

To determine the feasibility of redevelopment, HR&A calculated the residual land value for a Class A office development on the site with positive land value denoting feasibility at a threshold rate of return, and negative values indicating a funding gap required to be filled to make the project feasible. Our analysis relies on the following assumptions (also see Table C):

- **Program:** Based on discussions with local developers, HR&A examined a program with total developable gross square footage of 982,000 to 1,473,000 square feet consisting of 15 floors of Class A office space (770,000 to 1,155,000 gross square feet) and 770 to 1,155 structured parking spaces to support the office development. The number of parking spaces reflects a parking ratio of 1 space per 1,000 gross square feet of office, reflecting the amount of parking that local developers believe necessary to attract office tenants to an East Downtown location.
- **Revenues:** HR&A examined market conditions in Minneapolis using the CoStar real estate database and conducted interviews with local developers and brokers familiar with the downtown Minneapolis office market. Based on these sources, the analysis assumes NNN office rents of \$16.00 per square foot with a vacancy rate of 4.2%. Local developers indicated that securing construction financing would require that a minimum of 60% of the office space be pre-leased prior to construction commencement. Downtown tenants pay for parking in addition to rent for office space. A monthly parking rate of \$151/space is assumed based on an average of current monthly parking rates in downtown parking structures.
- **Operating Expenses:** Based on discussions with local developers and data available in the CoStar real estate database, HR&A assumed operating expenses (excluding property taxes) of \$5/gross square foot.
- **Property Taxes:** Property taxes are calculated based on the property tax calculator provided by the City Assessor’s Office.
- **Construction Costs:** To estimate construction costs associated with high-rise office development, HR&A relied on interviews with local developers. Hard costs were determined to be \$140 per

¹ This cost reflects the estimated development costs for a standalone structured parking garage. It is assumed that hard costs for structured parking would be higher when the parking is incorporated in the podium of a mixed-use building.

gross square foot of office space and \$30,000/structured parking space. An additional 15% was added for soft costs.

- **Financing Costs:** For the analysis, HR&A assumed that 70% of the construction costs would be financed through debt at an interest rate of 6.5% and the remaining 30% of development costs would be financed through equity that would require a threshold rate of return of 12.0%.

Based on current market conditions, the residual land value analysis indicates that there is a funding gap that must be filled in order for the office development to be feasible. As shown in the following table, the office development of this scale results in a residual land value of \$3.3 to \$5.0 million. Adding the 770 to 1,155 parking spaces that would be required to support the office development has an incremental cost of \$12.2 to \$18.3 million², resulting in a cumulative funding gap of \$8.9 to \$13.4 million.

| Vertical Development | Value/(Gap) |
|---|-----------------------------------|
| Office Development Program | \$3.3 - \$5.0 million |
| + Office Program Parking Costs (770-1,155 spaces) | (\$12.2) – (\$18.3) million |
| = Residual Land Value/(Cumulative Funding Gap) | (\$8.9) – (\$13.4) million |

Negative values indicate a funding gap to be filled to make the project feasible.

Current Use vs. Vertical Development

A comparison of the parking value associated with the current use of the surface lot to the residual land value for vertical office development illustrates a cumulative funding gap for feasible redevelopment of \$23.1 to \$31.9 million. This reflects the sum of (1) the funding gap for vertical development and (2) the sum estimated to be required to motivate the surface parking lot owner to sell.

| Scenario 1: Office - Funding Gap | |
|---|------------------------------------|
| Vertical Development Cumulative Funding Gap | (\$8.9) – (\$13.4) million |
| Expected Land Value to Lot Owner (Parking Value + Replacement Parking Costs) | (\$14.2) – (\$18.5) million |
| = Cumulative Funding Gap | (\$23.1) – (\$31.9) million |

Negative values indicate a funding gap to be filled to make the project feasible.

Vertical Development Scenario 2

Scenario 2 examines the feasibility of a 10-story market rate rental residential development on a family-owned surface parking lot. The lot selected was a 27,000 square foot family-owned surface parking lot located in the southern portion of the study area in the Elliot Park neighborhood. The table below summarizes the current use of the lot and the illustrative residential redevelopment.

| Current Use | Vertical Development |
|--|---|
| <ul style="list-style-type: none"> • 118 Parking Spaces • Primary Use: Commuter & Neighborhood Parking • Secondary Use: Event Parking (25 days) | <ul style="list-style-type: none"> • 10-story market rate residential development • 198,000-288,000 gross square feet • 181-263 units • 181-263 structured parking spaces |

Parking Pro Forma

² This figure is taken from the pro-forma of the office developer and therefore nets out future cash flow from parking revenue in the same manner the office development program nets out future cash flows from office rent.

Currently, the surface parking lot has 118 parking spaces that are utilized by downtown commuters, visitors and residents of Elliot Park, as well as for special-event parking for Vikings games and other events at the Metrodome. The owner’s primary objective is to operate a profitable parking business that generates a secure revenue stream.

In order to determine the parking value from the perspective of the current owner of the surface parking lot, HR&A developed an illustrative pro forma. Our analysis relies on the following key assumptions (also see Tables D-E):

- **Revenues:** The revenue assumptions were derived based on interviews conducted by HR&A with parking lot owners and operators and information posted on lot signage. It is assumed that there are four parking revenue streams each with different average rates and utilizations: (1) daytime parking, (2) overnight parking, (3) Viking game parking, and (4) other special event parking.
- **Operating Costs:** HR&A reviewed operating costs for surface parking lots with local Minneapolis parking lot owners and operators. The primary operating costs categories are snow removal, insurance, repair and maintenance, and parking management. It is assumed that the surface parking lots are unmanned but monitored daily and during special events. In total, it is estimated that these operating costs amount to \$85/space/year.
- **Sale and Property Taxes:** It is assumed that parking lot owners are subject to Minneapolis sales tax of 7.775% and property taxes. For purposes of this analysis, HR&A used the 2012 property taxes per the City Assessor’s Office.
- **Growth Rate & Discount Rate:** In order to determine the present value of future cash flows for the surface parking lot owner, HR&A capitalized the cash flows based on the perpetuity growth methodology. With this approach, the present value of the future cash flow stream is calculated by dividing the current cash flow by the difference between the discount rate and the perpetuity growth rate. HR&A assumed a perpetuity growth rate of 2.3%, which is equivalent to the 2011-2012 CPI growth rate for Minneapolis. A range of discount rates from 4%-6% were used, accounting for a reasonable range of risk and return expectations for the surface parking lot owner based on the relative stability of the anticipated future parking cash flows.

As shown in the following table, baseline land value for the lot from the perspective of the surface parking lot owner is between \$3.2 and \$7.0 million, which is equivalent to \$120 - \$261 per square foot. The 2012 estimated market value from the City Assessor’s office was \$.7 million or \$25 per square foot.

| Current Use | Value |
|--|------------------------------|
| Present Value of Future Cash Flows (4%-6% Discount Rate) | \$3.2 - \$7.0 million |
| = Parking Value | \$3.2 - \$7.0 million |

In addition to the present value of future cash flows, it is also assumed that parking company/family surface parking lot owners’ willingness to sell is significantly driven by their desire to identify a substitute ongoing revenue stream.

In the “real world”, therefore, sales tend to occur when the next generation of a family parking business declines to enter the business. The corollary is that many sales do not occur because family businesspeople are unable to find attractive alternative investment opportunities including local replacements for their parking lot portfolios. As such, in addition to an attractive land purchase price, incentive to participate in a redevelopment may require creative deal structuring such as joint venture partnerships that would allow the surface parking lot owner to continue to operate the parking component of a vertically redeveloped site.

Vertical Development Pro Forma

To determine the feasibility of redevelopment, HR&A estimated the residual land value for a market-rate rental residential development on the site with positive land value denoting feasibility at a threshold rate

of return, and negative values indicating a funding gap required to be filled to make the project feasible. Our analysis relies on the following assumptions (also see Table F):

- **Program:** Based on discussions with local developers, HR&A examined a program with total developable gross square footage of square feet consisting of 10 floors of residential development (148,500 to 216,000 gross square feet/181-263 units) and 181 to 263 structured parking spaces to support the residential development. The number of parking spaces reflects a parking ratio of 1 space per residential unit reflecting the amount of parking that local developers believe necessary to attract renters, particularly to an East Downtown location.
- **Revenues:** HR&A examined market conditions in Minneapolis based on a comparables analysis of luxury residential rental buildings and interviews with local developers familiar with the downtown Minneapolis office market. Based on these sources, the analysis assumes monthly residential rents of \$2.10 per square foot with a vacancy rate of 4.2%. This rent is lower than in more established residential neighborhoods such as the Mill District, the Warehouse District and Loring Park. Downtown renters pay for parking in addition to their monthly unit rent; a monthly parking rate of \$115/space is assumed based on comparable rates at residential buildings in the Mill District.
- **Property Taxes:** Property taxes are calculated based on the property tax calculator provided by the City Assessor's Office.
- **Construction Costs:** To estimate construction costs associated with high-rise residential development, HR&A relied on interviews with local developers. Hard costs were determined to be \$165 per gross square foot of residential space and \$30,000 per structured parking space. An additional 15% was added for soft costs.
- **Financing Costs:** For the analysis, HR&A assumed that 70% of the construction costs would be financed through debt at an interest rate of 6.5%, and the remaining 30% of development costs would be financed through equity that would require a threshold rate of return of 12.0%.

Based on current market conditions, the residual land value analysis indicates that there is a funding gap that must be filled in order for the 10-story residential development to be feasible. As shown in the following table, the residential development results in a residual land value of \$2.9 to \$4.2 million. However, adding the 181 to 263 parking spaces that would be required to support the residential development has an incremental cost of \$4.1 to \$6.0 million, resulting in a cumulative funding gap of \$1.2 to \$1.8 million.

| Vertical Development | Value/(Gap) |
|---|----------------------------------|
| 10-Story Residential Development Program | \$2.9 - \$4.2 million |
| + Residential Program Parking Cost (181-263 spaces) | (\$4.1) – (\$6.0) million |
| = Residual Land Value/(Cumulative Funding Gap) | (\$1.2) – (\$1.8) million |

Negative values indicate a funding gap to be filled to make the project feasible.

Current Use vs. Vertical Development

A comparison of the parking value associated with the current use of the surface lot to the residual land value for vertical high-rise residential development indicates a cumulative funding gap for feasible redevelopment of \$4.4 to \$8.8 million. This reflects the sum of (1) the funding gap for vertical development and (2) the price estimated to be needed to motivate surface parking lot owners to redevelop.

| Scenario 2 Funding Gap | |
|--|----------------------------------|
| Vertical Development Cumulative Funding Gap | (\$1.2) – (\$1.8) million |
| Expected Land Value to Lot Owner (Parking Value) | (\$3.2) – (\$7.0) million |
| = Cumulative Funding Gap | (\$4.4) – (\$8.8) million |

Negative values indicate a funding gap to be filled to make the project feasible.

TABLES

Table A: Vertical Development Scenario 1 – Parking Revenues

| Parking Revenues | Employee Parking + | Vikings Game Parking + | Other Special- Event Parking = | Total |
|--------------------------|-------------------------------|-----------------------------------|---|------------------|
| Number of Parking Spaces | 460 | 460 | 460 | 460 |
| Average Daily Ticket | \$2.00 | \$25.00 | \$10.00 | |
| Utilization | 100% | 100% | 33% | |
| Number of Days | 250 | 10 | 15 | |
| Annual Revenue | \$230,000 | \$115,000 | \$23,000 | \$368,000 |

Table B: Vertical Development Scenario 1 – Parking Pro Forma

| | 6% Discount Rate | 4% Discount Rate |
|--|-----------------------------|-----------------------------|
| Net Present Value of Cash Flows | | |
| Parking Revenues | \$368,000 | \$368,000 |
| Operating costs (\$ per space/year) | \$85.00 (39,100) | (39,100) |
| Sales Tax (% Tax) | 7.775% (28,612) | (28,612) |
| Property Taxes | (165,945) | (165,945) |
| Net Operating Income | \$134,343 | \$134,343 |
| Growth Rate | 2.3% | 2.3% |
| Discount Rate | 6.0% | 4.0% |
| NPV of Annual Cash Flow | \$3,630,000 | \$7,900,000 |
| Cost of Replacement Parking | | |
| Parking Spots to be Replaced | 460 | 460 |
| Parking Hard Costs (per Space) | \$20,000 /Space \$9,200,000 | \$9,200,000 |
| Soft costs (% hard costs) | 15% 1,380,000 | 1,380,000 |
| Total Cost of Replacement Parking | \$10,580,000 | \$10,580,000 |
| NPV of Annual Cash Flow + Replacement Parking Costs | \$14,210,000 | \$18,480,000 |

Table C: Vertical Development Scenario 1 – Vertical Development Land Residual Analysis

| | 15-STORY OFFICE | | |
|--------------------------------------|----------------------|----------------------|-----------------------|
| | Low End SF | High End SF | |
| Office GSF | 770,000 | 1,155,000 | |
| Parking spaces @ 1 per 1,000 sq feet | 770 | 1,155 | |
| Total GSF | 982,000 | 1,473,000 | |
| Office Pro Forma | | | |
| Annual NNN Office Rent per NSF | \$16.00 | \$16.00 | |
| Vacancy | 4.2% | 4.2% | |
| Annual Net Office Revenues | \$10,030,000 | \$15,050,000 | |
| Monthly Parking Rate | \$151 | \$151 | |
| Utilization | 85% | 85% | |
| Annual Net Parking Revenues | \$1,190,000 | \$1,780,000 | |
| Total Annual Net Income | \$21,400,000 | \$32,100,000 | |
| Operating Costs | (3,850,000) | (5,780,000) | |
| Property Taxes | (6,780,000) | (10,160,000) | |
| Net Operating Income | \$10,770,000 | \$16,160,000 | |
| Capitalization Rate | 7.0% | 7.0% | |
| Market Value | \$153,900,000 | \$230,860,000 | |
| Project Costs | | | |
| Hard Costs (per GSF) | \$140 PSF | \$107,810,000 | \$161,720,000 |
| Parking Hard Costs (per Space) | \$30,000 /Space | 23,100,000 | 34,650,000 |
| Soft Costs (% hard costs) | 15% | 19,640,000 | 29,460,000 |
| Total Construction Costs | | \$150,550,000 | \$225,830,000 |
| Cost of Capital (1) | | 12,270,000 | 18,400,000 |
| Total Project Costs | | \$162,820,000 | \$244,230,000 |
| Supportable Land Value | | (\$8,920,000) | (\$13,380,000) |

(1) Assumes a 70% debt financing at an interest rate of 6.5% and 30% equity financing with a 12.0% return.

Table D: Vertical Development Scenario 2 – Parking Revenues

| Parking Revenues | Daytime Parking + | Overnight Parking + | Vikings Game Parking + | Other Special- Event Parking = | Total |
|--------------------------|------------------------------|--------------------------------|-----------------------------------|---|------------------|
| Number of Parking Spaces | 118 | 118 | 118 | 118 | 118 |
| Average Daily Ticket | \$5.00 | \$5.00 | \$10.00 | \$7.00 | |
| Utilization | | | 100% | 33% | |
| Weekdays | 85% | 10% | | | |
| Weekends | 15% | 10% | | | |
| Number of Days | 365 | 365 | 10 | 15 | |
| Annual Revenue | \$135,553 | \$21,535 | \$11,800 | \$4,130 | \$173,018 |

Table E: Vertical Development Scenario 2 – Parking Pro Forma

| | 6% Discount Rate | 4% Discount Rate |
|--|-----------------------------|-----------------------------|
| Net Present Value of Cash Flows | | |
| Parking Revenues | \$173,018 | \$173,018 |
| Operating costs (\$ per space/year) | \$85.00 | (10,030) |
| Sales Tax (% Tax) | 7.775% | (13,452) |
| Property Taxes | | (29,873) |
| Net Operating Income | \$119,662 | \$119,662 |
| Growth Rate | 2.3% | 2.3% |
| Discount Rate | 6.0% | 4.0% |
| NPV of Annual Cash Flow | \$3,230,000 | \$7,040,000 |

Table F: Vertical Development Scenario 2 – Vertical Development Land Residual Analysis

| | 10-STORY RESIDENTIAL | | |
|--------------------------------------|----------------------|----------------------|----------------------|
| | Low End SF | High End SF | |
| Residential GSF | 148,500 | 216,000 | |
| Residential units @ 820 GSF per unit | 181 | 263 | |
| Parking spaces @ 1 space per unit | 181 | 263 | |
| Total GSF | 198,000 | 288,000 | |
| Residential Pro Forma | | | |
| Monthly Rent per NSF | \$2.10 | \$2.10 | |
| Vacancy | 5% | 5% | |
| Annual Rent Residential Revenues | \$3,020,000 | \$4,400,000 | |
| Monthly Parking Rate | \$115 | \$115 | |
| Vacancy | 5% | 5% | |
| Annual Net Parking Revenues | \$240,000 | \$350,000 | |
| Total Annual Net Income | \$3,260,000 | \$4,740,000 | |
| Operating costs (% market rent) | 15% (490,000) | (710,000) | |
| Property Taxes | (790,000) | (1,150,000) | |
| Net Operating Income | \$1,980,000 | \$2,880,000 | |
| Capitalization Rate | 5.5% | 5.5% | |
| Market Value | \$36,000,000 | \$52,360,000 | |
| Project Costs | | | |
| Hard Costs (per GSF) | \$165 PSF | \$24,500,000 | \$35,640,000 |
| Parking Hard Costs (per Space) | \$30,000 /Space | 5,430,000 | 7,900,000 |
| Soft Costs (% hard costs) | 15% | 4,490,000 | 6,530,000 |
| Total Construction Costs | | \$34,430,000 | \$50,070,000 |
| Cost of Capital (1) | | 2,810,000 | 4,080,000 |
| Total Project Costs | | \$37,230,000 | \$54,150,000 |
| Supportable Land Value | | (\$1,230,000) | (\$1,800,000) |

(1) Assumes a 70% debt financing at an interest rate of 6.5% and 30% equity financing with a 12.0% return.

East Downtown Parking Lot Study

Case Study Appendix

Revised: August 9, 2013

Minneapolis East Downtown Parking Lot Study

Appendix- Case Studies

HR&A Advisors, Inc.

Introduction

HR&A examined three case studies selected by the City of Minneapolis Community Planning and Economic Development (CPED) to understand the efficacy of tools employed by other jurisdictions to incentivize downtown-edge development. The case studies explore the revitalization of downtown districts that had experienced disinvestment, and where public and or public/private interventions were then made in an attempt to catalyze development. Case studies were selected based on their ability to permit examination of three public interventions of particular interest: changes in property tax policy, land use regulatory regimes/incentive structures designed to promote transit-oriented development, and land use regulatory regimes/incentive structures designed to promote urban development in districts in which stadia were located. Case studies selected were:

1. Property Tax Policy - Pittsburgh's Two-Rate Taxation System
2. Gap Financing for Transit Oriented Development - New Jersey Urban Transit Hub Tax Credits
3. US Cities with Urban NFL Stadiums - Overview of Interventions in Seattle, Cleveland, Indianapolis & Denver

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Case Studies

Pittsburgh Two-Rate Taxation

New Jersey Urban Transit Hub Tax Credits

Redevelopment Models Surrounding Urban NFL Stadiums

Pittsburgh Two-Rate Taxation

From the 1950s-1970s, Pittsburgh experienced an economic downturn and population loss due to the collapse of the steel industry, the city's consequent shift away from a manufacturing-based economy, and suburbanization of regional population. In an effort to incentivize development in the downtown core and stem resident and worker movement from the center city to the suburbs, Pittsburgh embarked on an ambitious, much-discussed transformation agenda. Among the initiatives advanced was a shift in property taxation policy.

Intervention:

From 1913 to the 1970s, the City of Pittsburgh taxed buildings at one half the rate of land. This two-rate taxation system was wholly unique to Pennsylvania, and, at the time enacted, actually used by only Pittsburgh and Scranton. However, for most of the period 1913-1970, when local Pittsburgh taxes were combined with County and School District taxes which were imposed conventionally, the resulting total differential in taxation between land and improvements was imperceptible to all but a limited number of property owners.

In an effort to incentivize vertical development, in 1979-80 Pittsburgh amended its two-rate taxation system to increase rates on land to more than five times building rates. Due to a number of factors including a lack of confidence in Pittsburgh's struggling job market, limited new commercial real estate product had come onto the market. As a result, vacancy rates had dropped to 1%, creating a strong potential market for new commercial product in an otherwise weak economy, provided demand could be generated.

Pittsburgh also worked to incentivize development by granting tax abatements for new building construction, thereby indirectly further lowering the tax rate on new buildings, especially vis a vis existing buildings. Pittsburgh's Urban Redevelopment Authority also provided low interest loans for commercial and residential rehabilitation and construction. Finally, construction in Pittsburgh was able to leverage the Economic Recovery Tax Act of 1981, a federal program that provided incentives for the renovation of old structures by providing accelerated depreciation and tax credits. Simultaneous with all of this, Pittsburgh's famous public-private partnerships and nonprofit-private partnership were formed. The public-private partnership known as Renaissance II allowed the private funding of development through the public authority, thereby building many of the city's largest structures. Nonprofit-private partnerships focused on the regeneration of downtown through reinvestment in cultural and open space.

The City continued to increase the tax on land, leaving taxes on buildings level, and by the 1990s Pittsburgh taxed buildings at one-sixth the rate of land. For the first time, the difference in taxation became meaningful to surface parking lot owners, because the split-rate tax, when coupled with County and School district taxes, resulted in a 200% difference between the total tax on improvements and on land.

Resulting Impact:

Despite the severe local recession, and unique among Rust Belt cities at the time, residential and office development increased in the 1980s. Commercial development predominated; 9.5 million square feet of office were built. An examination of the change in the real value of annual new building permits, as adjusted for inflation, in 15 Rust Belt cities from before and after 1979, the year of the amended taxation measures, reveals that Pittsburgh's average annual value of building permits increased from \$182 million to \$310 million, an increase of approximately 70%. In

contrast, the real annual value of building permits declined in all but one of the other 14 cities. This success did not extend to the suburbs of Pittsburgh; it remained within the city's borders.

In the view of most observers and academic researchers, these results were a consequence of the efforts of the new public-private partnership, manifested in the expansion of several corporate headquarters; very low office vacancy rates; and the public assistance provided to construction of office complexes. Oates & Schwab, authors of the seminal study on the Pittsburgh Land Tax wrote that their analysis “demonstrates that a shortage of office space was a primary driving force behind the expansion. However; the two rate taxation played an important role by enabling the city to avoid rate increases in other taxes that could have impeded development.” In other words, although the split rate system cannot be demonstrated to have itself incentivized development, in a time of constrained fiscal resources, the two-rate taxation system gave the City the flexibility to experiment with a strongly pro-development tax policy without putting other City services at risk.

In 2001, Pittsburgh reverted to a single-rate taxation structure: there was a backlash when the City moved to increase the rate on land to eight times the rate on improvements.

Since Pennsylvania first enacted the land value tax, only three other states - Virginia, Hawaii, and Connecticut - have adopted legislation to allow split rate taxation. Few municipalities outside Pennsylvania have successfully utilized the legislation, and none have demonstrated the overall success that Pittsburgh found in Renaissance II.

LESSON LEARNED

- Split rate taxes alone did not create a boom in construction in Pittsburgh in the 1980s.
- Underlying demand must exist, although that may be catalyzed by public/quasi-public action.
- Split rate taxes may be implemented without negative fiscal impact.
- The two-rate taxation exercise has been explored in depth at a more academic and theoretical level but has limited documented success on when implemented elsewhere.

New Jersey Urban Transit Hub Tax Credit Program

From 2002-2006 annual population growth declined and the number of people leaving New Jersey increased. This change has been credited to better employment opportunities, lower costs of doing business, lower costs of living, newer infrastructure and housing stock, and greater ease of building in peer states. In 2006, New Jersey was deemed the 3rd worst state for business by the State Business Tax Climate Index. In 2007, private sector employment growth flat-lined.

Intervention:

As part of a comprehensive economic growth strategy spearheaded by the Governor, in 2008 the Economic Development Authority (EDA) of New Jersey launched a program designed to encourage transit-oriented, sustainable development in communities that had historically suffered from disinvestment. The program was (and is) limited to Urban Transit Hubs located within a half mile of NJ Transit, PATH, PATHCO or light rail stations in Camden, East Orange, Elizabeth, Hoboken, Jersey City, Newark, New Brunswick, Patterson and Trenton.

The program offers tax credits to both non-residential and residential development. For qualified non-residential projects, the program offers tax credits of up to 100% of qualified capital investments of at least \$50 million. Qualified applicants have to employ at least 250 full-time employees on site. Projects with 250 existing employees are eligible for tax credits of up to 80%, while projects creating 200 or more new jobs are eligible for credits of up to 100%. For qualified residential projects, the program offers tax credits of up to 35% of qualified capital investments of at least \$50 million.

The main users of the incentives are office developers with triple net tenants, triple net tenants themselves, commercial owner-occupants and residential developers with a demonstrable “gap” in financing. Projects are evaluated on a case-by-case basis with open sharing of financial information.

Once approved the credits must be taken over 10 years at a rate of 10% per year. The credits can be applied against the corporate business tax or the insurance premiums tax. Tax credit recipients have the option to sell or transfer their tax credits in order to best utilize the benefits of the incentive. Consideration for the sale or assignment of the credits is limited to not less than 75% of the transferred credit amount. Tenants’ credits are capped at 100% of lease payments.

To ensure the projects selected will result in a net positive impact to New Jersey, the EDA board set a test standard that the project must return to the state a minimum of 110% of the approved benefit. Additionally, projects must obtain LEED ratings, National Green Building Standard approval and NJ Energy Star Homes program approval. Renovations must perform 15% better than ASHRAE 90.1-2004 standards. If the project ultimately fails to meet the hurdles of the qualifying tests or if there is a transfer of ownership/leasehold, the EDA is authorized to claw back the incentive allocated to the project.

Originally, \$1.5 billion was allocated for the program, and in 2011, an additional \$250 million of funding was earmarked specifically to support qualified residential projects.

Resulting Impact:

Since inception, the EDA has approved over \$1 billion in tax credits for 21 transformational projects. The EDA states that it has leveraged over \$2 billion of private investment, leading to the creation of more than 9,300 construction jobs and 2,360 new permanent jobs, and ensuring the retention of 2,360 jobs that were deemed by company executives as “at risk” of leaving New Jersey.

The subsidy has drawn praise from urban planning groups for promoting smart growth and sparking development in troubled cities. Critics of the program argue that it has not done enough to create jobs; lawmakers respond that spurring real estate development in depressed cities was the primary goal, job creation was a secondary, beneficial result. The program explicitly permits movement of jobs from one NJ location to another; the implicit assumption is that, to the extent jobs are moved to areas that are most depressed, new jobs will move into the healthier areas left behind.

While \$1 billion+ in tax credits has been approved, only two projects have been awarded the credits, as no credit is issued until a project has received a certificate of occupancy.

Two transformative residential projects spurred by the program and currently underway include the Teacher’s Village in Newark and the Gateway Transit Village in New Brunswick.

- *Teacher’s Village:* The first phase of the \$150 million, 425,000 square foot Teachers Village project is nearing completion with the 2nd phase underway. Located in the heart of Newark, the project will combine three charter schools totaling 100,000 square feet with over 200 units of housing pre-marketed for educators and 70,000 square feet of retail space. Scheduled for completion in 2014, the project will transform surface parking into mixed-use development, which would not have been economically viable without the incentives.
- *Gateway Transit Village:* Gateway Transit Village is a 23 story 630,000+ square foot mixed-use development located at the NJ Transit Station in New Brunswick. Developed by a nonprofit redevelopment entity, the project will include structured parking for public transit commuters; market rate and affordable housing to meet the needs of the city’s growing population; Class A office to attract companies and create jobs; and retail and park space to lure new residents, create a connection with nearby Rutgers University, and draw companies to a highly amenitized project.

LESSONS LEARNED:

- Deep incentives delivered as tax credits can spur desirable development in underbuilt transit-oriented neighborhoods.
- Underlying market demand is nonetheless needed: the program has been more effective in incentivizing residential and mixed-use development than commercial development.
- Assuming a more or less similar political environment to New Jersey’s, the East Downtown neighborhood is unlikely to be considered in such dire straits that State government would support potential displacement of growth from other Minnesota communities.

Recent Urban Development in Stadium Districts: Case Studies

The following case studies are of major U.S. cities' sports stadium districts. The four districts examined have seen varying levels of development in the last fifteen years. Interventions by municipal governments and the subsequent results in the districts varied. The case studies demonstrate that while stadia can promote development, a master plan for the district that considers the opportunities presented by the stadium, proximity to other venues, other strategic public investment (e.g. in the public realm), and connections to transit tend to also be required to support development.

In the past fifteen years, sixteen NFL stadia have been built, seven of which were built near central business districts. The following four cities were chosen from among the seven because these cities' district characters and current economic conditions most closely resemble those of Minneapolis.¹

- Indianapolis
- Cleveland
- Denver
- Seattle

The four case studies are explained in greater detail on the following pages. A summary of the key takeaways can be found below:

LESSONS LEARNED

- A stadium alone is unlikely to drive capital investment in the surrounding area.
- Locating a stadium near other sports arenas or a convention center can help to bring more people to the district year-round, as opposed to only during the limited number of game-days each year.
- The most successful examples of development in a stadium district have been in master-planned areas and have required the negotiation of public-private partnerships with developers.
- Without a master plan or vision for the district, stadiums fail to catalyze the development of neighborhood amenities and in some cases development of any kind.
- Additional public investment in the infrastructure and amenitization of the area, e.g. through investment in transit and/or the public realm, consistent with a master plan, is highly correlated with success.

¹ Cities excluded from the case study analysis were Cincinnati, Detroit, and Pittsburgh.

Recent Urban Development in Stadium Districts: Indianapolis

The Indianapolis Colts' Lucas Oil Stadium was built in 2008 in downtown Indianapolis and hosted the 2012 Super Bowl. The stadium replaced the RCA Dome, which was located on an adjacent property. Following the completion of the Lucas Oil Stadium, the RCA Dome was demolished so that the Indianapolis Convention Center could expand.

Lucas Oil Stadium is connected to the Indianapolis Convention Center by a walkway, and more recently the City of Indianapolis expanded its Cultural Trail to connect the stadium to the downtown. Prior to construction, the area contained many parking lots and industrial uses. The stadium is also located near to Bankers Life Fieldhouse, home to the Indiana Pacers (NBA) and Victory Field, a Minor League Baseball field. These stadiums are too far apart to share parking or the benefits of a unified district.

Intervention:

Unlike in other cities where the NFL team requested a new stadium, Indianapolis itself proposed the stadium as a way to facilitate the removal of the RCA Dome and the expansion of the convention center. Funding for the stadium came from the State of Indiana and Marion County. During the development of the stadium, the project faced unexpected financial constraints due to higher than anticipated operating costs. The County increased taxes to help fill the gap.



Resulting Impact:

Upon completion of the stadium, development of three hotels occurred in the immediate area. The City also developed a Cultural Trail and made a \$12.5 million dollar investment in a new public space at Georgia Street. Today, the stadium is connected to the convention center and downtown Indianapolis to its north, but connections to the south are still lacking. Lack of development in this area is attributed to the design of the stadium and, specifically, placement of large surface parking lots south of it. In addition, limited development is attributed to the lack of a pre-existing master plan to guide district development.

In 2012, the neighborhood development corporation developed a master plan for the area immediately adjacent to and south of the stadium. Public realm improvements and the master plan are given credit for the early stages of development in the district: today there are a few hotels and light industrial businesses immediately adjacent to the stadium. A highly programmed, mixed-use redevelopment is currently planned for Georgia Street with major backing from the public sector.

Recent Urban Development in Stadium Districts: Cleveland

In 1996, following public outcry regarding the proposed move of the Cleveland Browns to Baltimore, it was settled that Cleveland would keep the name of the “Browns.” Between 1996 and 1999, the team was “deactivated” while its new stadium was built. Construction of the Cleveland Browns’ FirstEnergy Stadium was completed in 1999.

FirstEnergy Stadium sits on Lake Erie in downtown Cleveland and is adjacent to the Great Lakes Science Center and the Rock and Roll Hall of Fame, which opened in 1996 and 1995, respectively. The stadium has access to a light rail station and shares parking with the adjacent properties.

The area to the west of the stadium is controlled by the Port of Cleveland and is industrial, and in some areas, vacant or underutilized land.

Intervention:

Development in downtown Cleveland has been very slow in the last 20 years. In 2004, the City of Cleveland released *Connecting Cleveland: The Waterfront District Plan*. This plan included a vision for Cleveland’s waterfront, including the area around the stadium. Cleveland updated a portion of this district plan in 2012, proposing mixed-use development to occur in the areas surrounding the stadium.

In 2008, a \$500 million public-private initiative was undertaken to redevelop brownfields in the Flats East Bank, which are located near the stadium along the Cuyahoga River and contained within the 2004 Waterfront District Plan.

The Port Authority released a strategic plan to develop the port and spur economic development in 2011. The intended uses for this area will continue to be maritime related, with some shift to recreational activities.

Resulting Impact:

Development has recently begun to occur in the Flats East Bank area. Phase I of a large mixed-use development is scheduled to be completed this year with the opening of the Ernst & Young Tower. This tower will be the “first new multitenant office building in downtown Cleveland in two decades.” Later phases of the plan include hotel, retail, and public spaces. Observers make no connection between the stadium and the new development.

Development has yet to occur in the area directly around the stadium; it is hoped that the 2012 update to the 2004 Plan will help spur development.



Recent Urban Development in Stadium Districts: Denver

The Denver Bronco’s Sports Authority Field at Mile High was completed in 2001. The stadium is separated from downtown Denver by the South Platte River. Sports Authority Field replaced Mile High Stadium, which was located on the same site.

The Stadium is located in the Sun Valley neighborhood, one of the poorest areas of Denver. 95% of the population within a 10 block area lives in public housing. The remainder of the neighborhood consists of industrial uses, surface parking lots and City service buildings.

There is very little activity around the stadium on non-game days.

Intervention:

In April 2013, Denver adopted the Decatur-Federal Station Area Plan, which focuses on developing the area around the Sun Valley light rail station. The plan considers land around Sports Authority Field and seeks to activate the area year-round. The extension of the light rail line into the station area served as one of the catalysts for the station area planning effort. The line opened in April 2013 and runs from the south end of the stadium to the west side of Denver, through the Sun Valley neighborhood. The Decatur-Federal Station Area Plan establishes goals of attracting more events to the stadium as a way to bring more visitors to the area throughout the year and of attracting two to three anchor tenants that will bring people to the neighborhood and support events at the stadium.

Resulting Impact:

The Central Platte District, which contains the Sports Authority Field at Mile High, Pepsi Center stadium and an amusement park has seen mixed-use development, in part as a result of rezoning and amenitization that occurred prior to the construction of these large facilities in the late 90s. However, a great deal of this growth occurred across the river from Sports Authority Field. Sun Valley has seen no development outside of the introduction of the light rail to the area.

It is too early to tell whether the new Decatur-Federal Station Area Plan will have an effect on the neighborhood.



Recent Urban Development in Stadium Districts: Seattle

CenturyLink Field was completed in 2002 and is home to the Seattle Seahawks and the Seattle Sounders (MLS). The stadium was built on the former site of the Kingdome and is near Safeco Field, which houses the Seattle Mariners (MLB). The two fields share parking. To the north of the stadium is the Pioneer Square neighborhood, which was an established residential neighborhood prior to the construction of the new stadium.

Intervention:

Seattle planned CenturyLink Field and Safeco Field as a single district. For example, to help to mitigate traffic congestion, the two venues cannot hold concurrent events. However while there were environmental impact studies and traffic mitigation plans for the two venues, no master plan was commissioned for the surrounding area. Instead, district plans have been developed years after the completion of the stadium.



In 2009, Seattle issued the Livable South Downtown Plan that encourages greater density and mixed-use development, as well as improvement of the public realm and aesthetics in some of the areas near the stadium. This plan, however, did not encompass all of the land surrounding both sports fields. In 2012, a concept plan for the Stadium District was released. This plan covers the surrounding neighborhoods for both sports fields and focuses specifically on the effects and interactions of the stadiums with their neighborhoods.

Resulting Impact:

Since the Livable South Downtown Plan was issued in 2009, developers have begun speculating on land in Pioneer Square and the industrial districts near the stadiums. Construction began in 2011 on Stadium Place, a new development that will replace the surface parking lot adjacent to CenturyLink Field. This mixed-use development will contain retail, office and over 700 new multifamily residential units.

As of 2012, there have been discussions of a new NBA/NHL stadium being built south of Safeco Field.

East Downtown Parking Lot Study

Outreach Presentation

Revised: July 15, 2013

East Downtown Parking Lot Study

Prepared for:
City of Minneapolis
Department of Community Planning & Economic Development

Study Framework

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

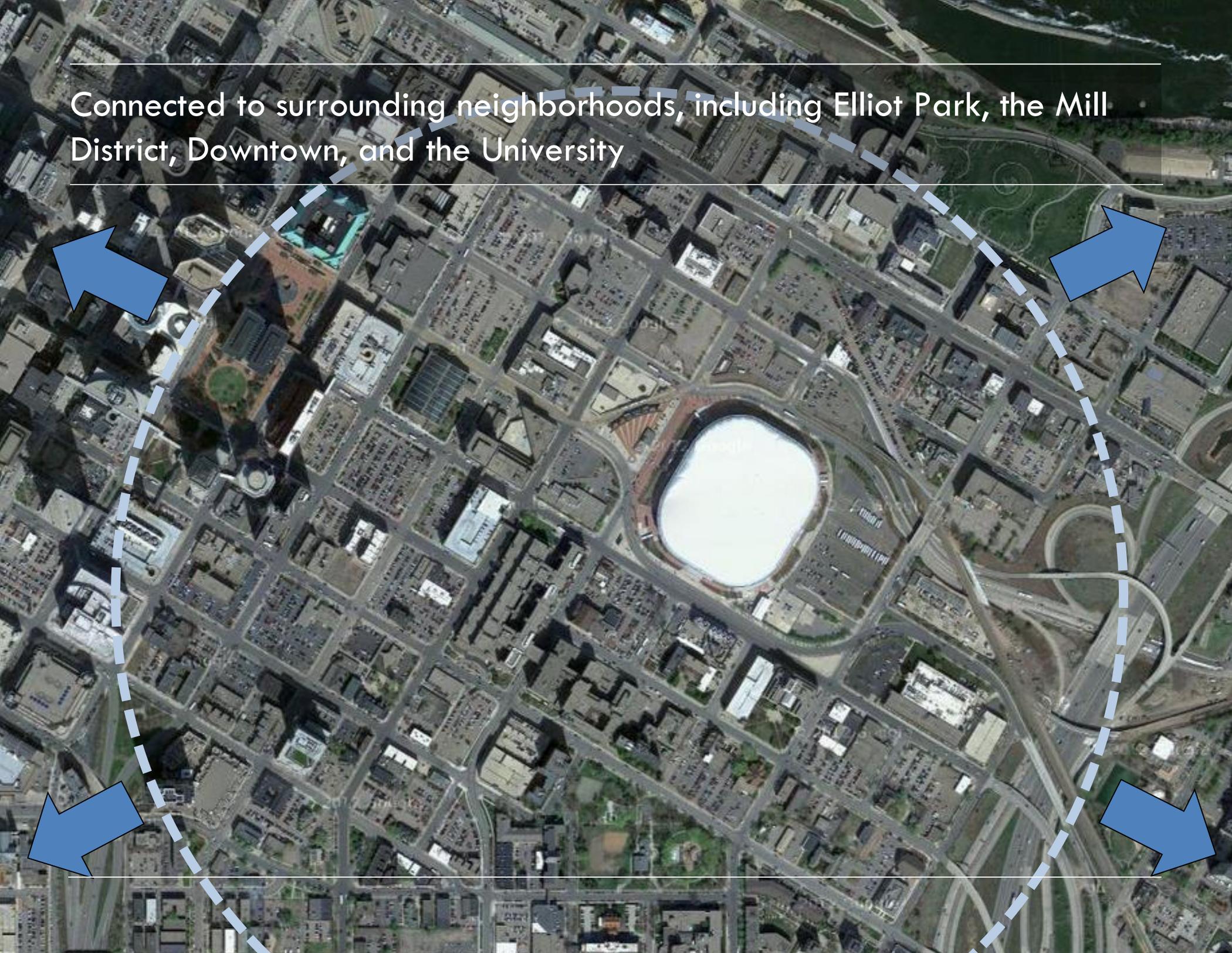
2

Develop Market-Based Solutions

- Estimate “bottom line” impacts of changes to economic drivers
- Evaluate impact of potential policy changes

East Downtown Vision

Connected to surrounding neighborhoods, including Elliot Park, the Mill District, Downtown, and the University

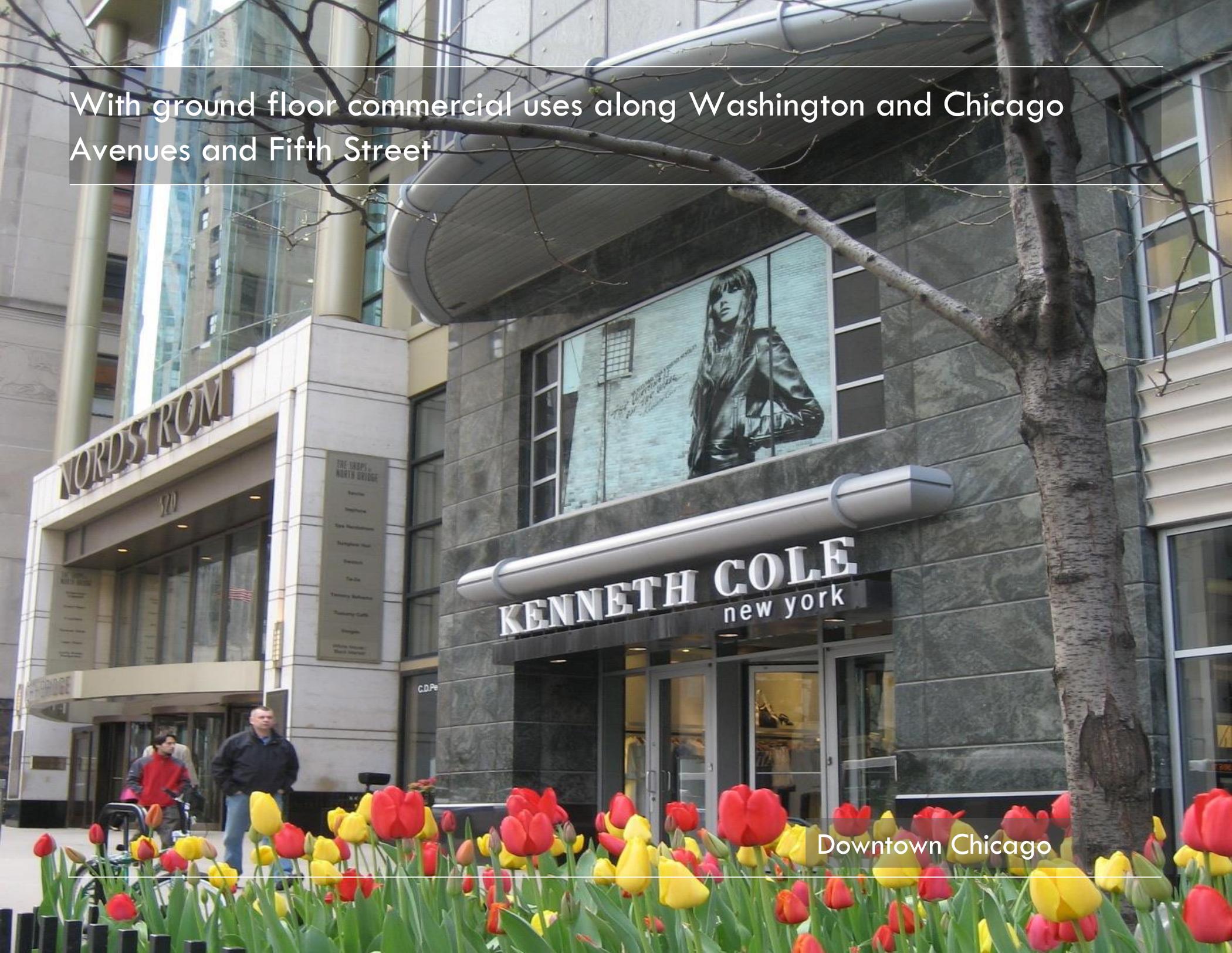


Characterized by mid- to high-density development that combines residential, office, hospitality, and retail



Downtown Minneapolis

With ground floor commercial uses along Washington and Chicago Avenues and Fifth Street



Downtown Chicago

Plus transit-oriented development and denser, more high-rise development than has traditionally been seen in Minneapolis



Downtown Denver

With structured parking either below or embedded within mixed-use development



Downtown St. Louis

Redeveloped with a pedestrian friendly streetscape



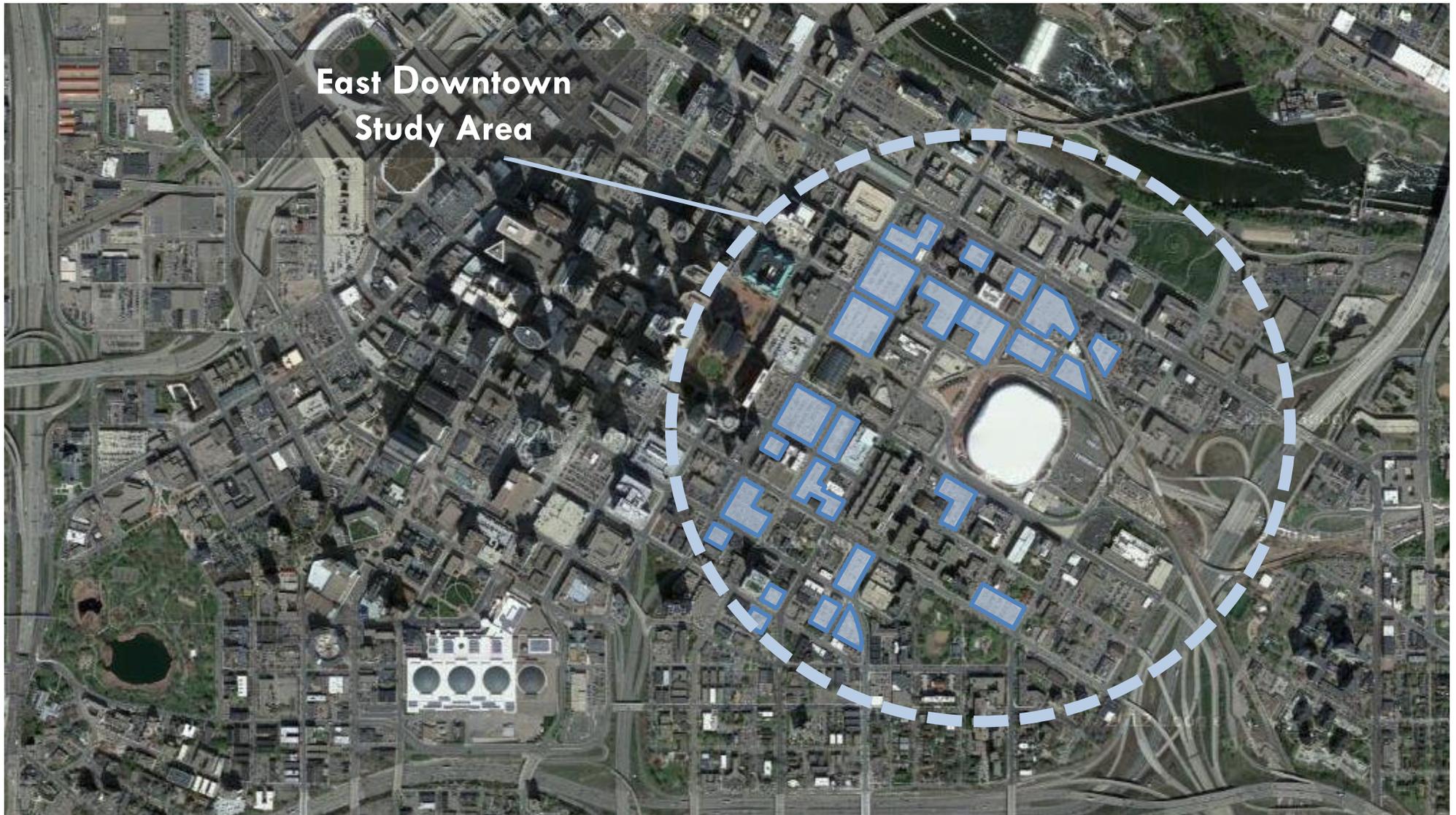
Back Bay, Boston

Context

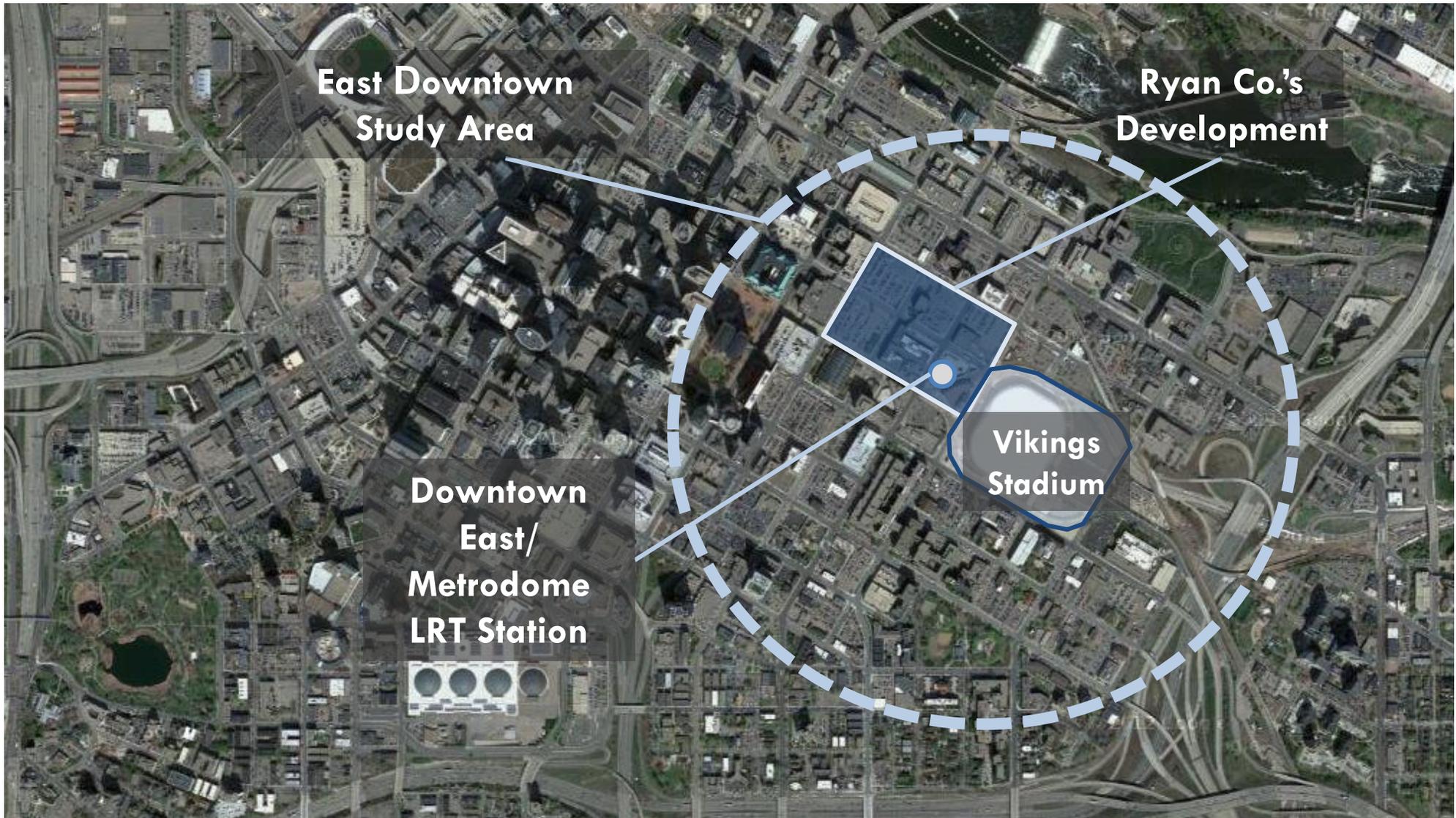
East Downtown is seemingly well-located for redevelopment.



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 Downtown East.

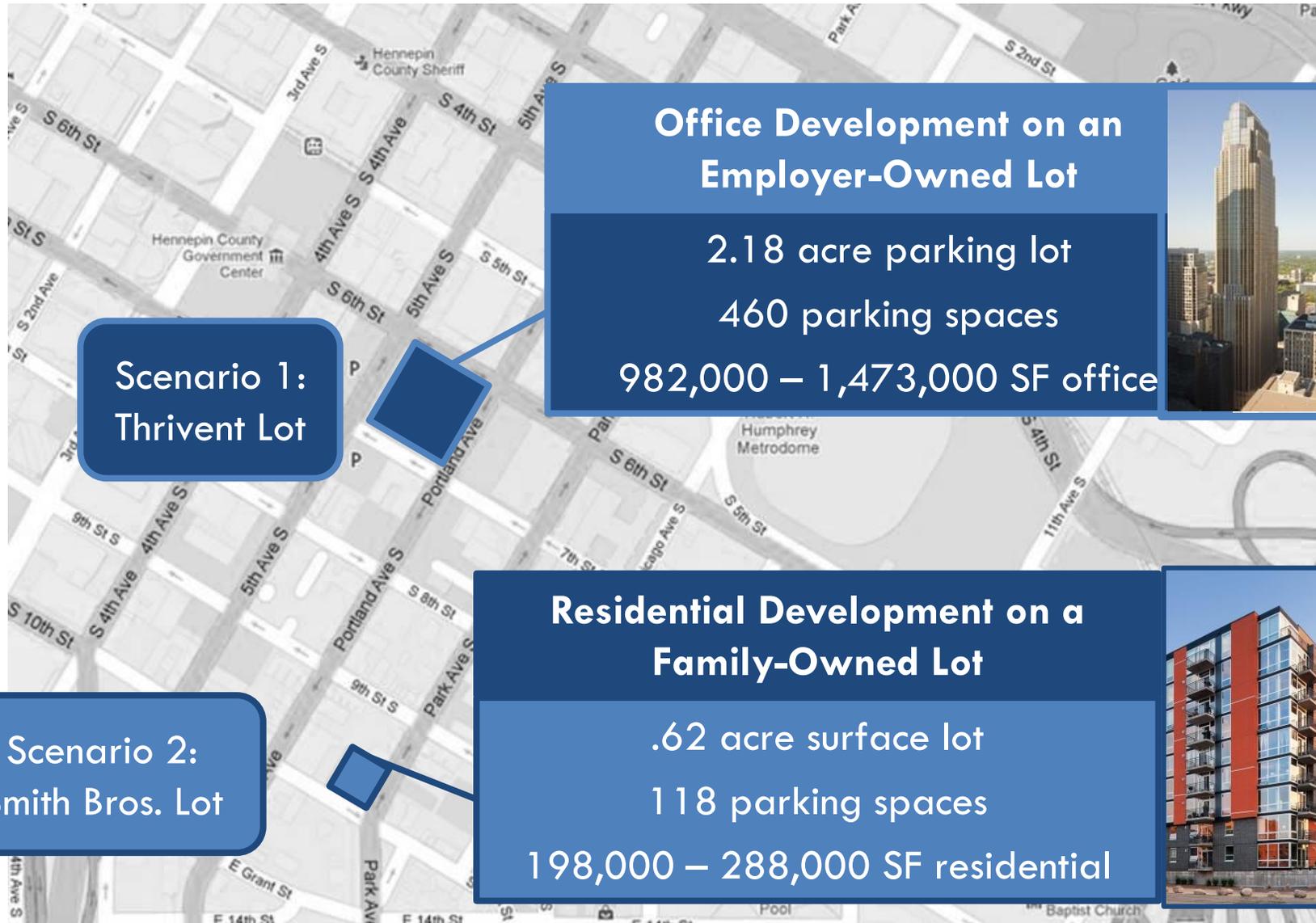


Current Parking Uses: There are three primary categories of surface parking lot owners with varying objectives and return expectations.

| | Parking Company/ Family-Owned | Developer-Owned | Employer-Owned |
|---------------------------|--|-------------------------------|---|
| Primary Objective | Long-Term Income | Defrayal of Hold Period Costs | Employee Benefit |
| Return Expectation | High | Break Even (+) | Break Even (+) |
| Parking Value | NPV Parking Cash Flow | NPV Parking Cash Flow | NPV Parking Cash Flow + Parking Replacement Costs |

Redevelopment Scenarios

Two potential redevelopment scenarios for surface parking lots in East Downtown test the application of the vision.



Development can only occur when it creates a supportable land value for the developer.

Land Value for Development

- Land Value for New Structured Parking

= Value of Land to Developer

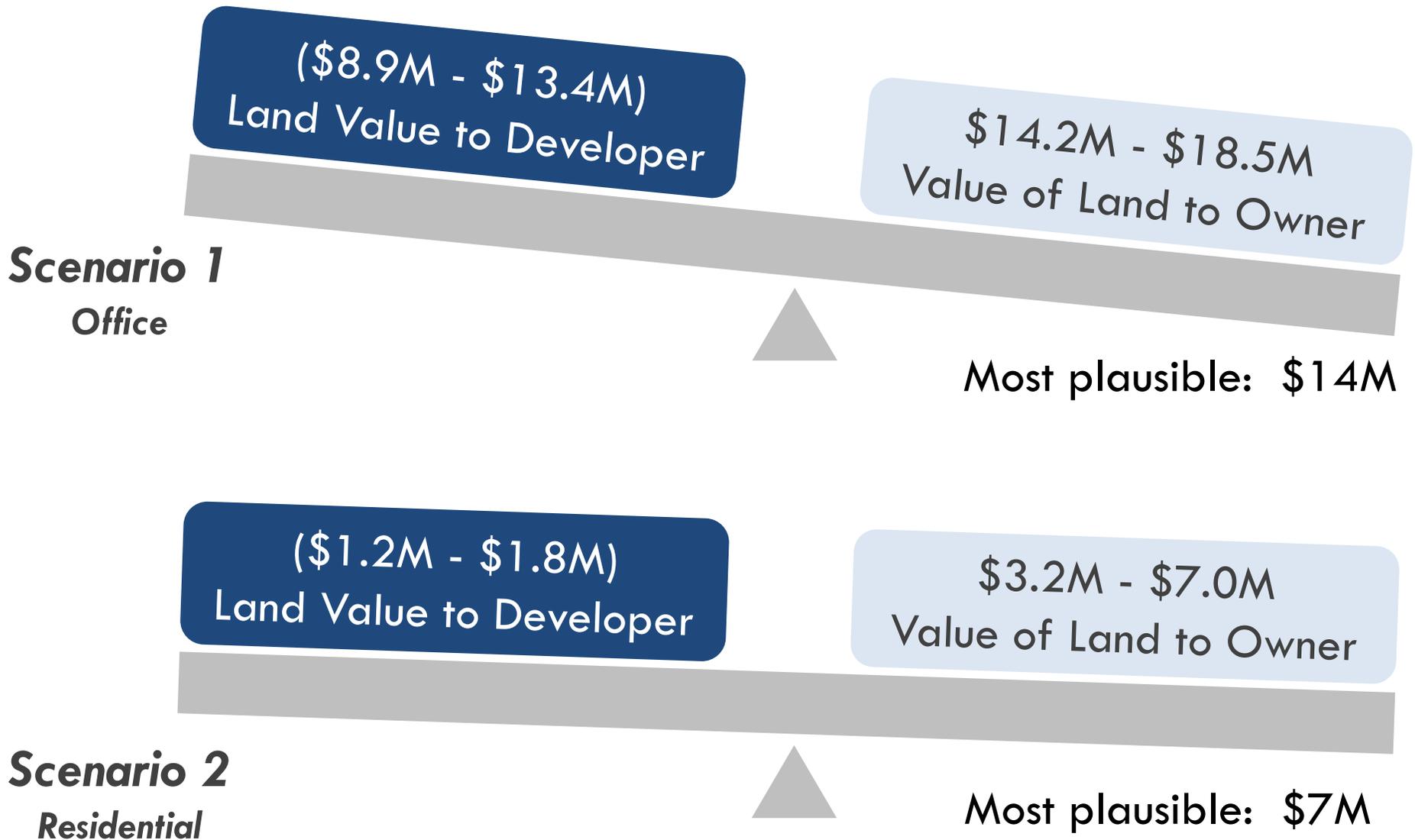
- Excess Land Value/Surface Parking Value to Parking Lot Owner

*- Cost for Replacement Structured Parking**

= Actual Market Value of Land

*if necessary

Land value expectations of parking lot owners are significantly – but not wholly – responsible for unsupportable developable land value.



Case Studies

HR&A examined three case studies selected by CPED to understand the efficacy of tools to incentivize development in East Downtown.

1

Four mid-sized US cities chosen based on existing land uses, public intervention & subsequent results

2

New Jersey 2008 Urban Transit Hub Tax Credit Program

3

Split Rate Land Use Taxation in Pittsburgh

Case Study 1: Mid-sized US Cities

Public investment in light rail and master plan has catalyzed development in **Seattle's** SoDo neighborhood.

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

Master planning and a public-private partnership has led to the first multi-tenant office building built in downtown **Cleveland** in 20 years.

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' vibrant mixed-use downtown paired with the expansion of large convention center has seen moderate development.

Summary

Robust mix of downtown uses, including Lucas Oil Field (NFL), Bankers Life Fieldhouse (NBA/WNBA) and Victory Field (MiLB).



Intervention

NFL stadium rebuilt 2008; enables convention center expansion. Additional public investment in connective public spaces. 2012 Master Plan



Result

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

Denver's investment in a new light rail line served as the catalyst for neighborhood plan around newly opened station.

Summary

95% of Sun Valley lives in public housing. Remainder of neighborhood is industrial, NFL stadium and parking lots.



Intervention

2001: New 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.



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 transitional areas.

Concept

Encourage transit-oriented, job-generating development in distressed cities

Qualifying projects

Depending on project and beneficiary type, must meet employment, investment size, proximity to transit station, affordability and net benefit tests.

Benefits

Up to 100% of qualified capital investments for non-residential and 35% of qualified capital investments for residential projects

Gap funding such as **New Jersey's 2008 Urban Transit Hub Tax Credit Program** can catalyze development in transitional areas.

Use of credit

- Taken over 10 years, 10% per year
- Credited against corporate business tax and/or insurance premiums tax
- Transfer permitted
- Tenant's credit capped at 100% lease payments
- Clawbacks if subsequent failure to meet qualifying tests or in the event of transfer of ownership/leasehold

Gap funding such as **New Jersey's 2008 Urban Transit Hub Tax Credit Program** can catalyze development in transitional areas.

Users of credit

- Office developers with NNN tenants
- NNN tenants
- Commercial owner occupants
- Residential developers of projects with a demonstrable “gap”
- No 2X dipping

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

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
1950-1970s: Pittsburgh struggles with decline of American steel, suburbanization.
1980: CRE vacancy at 1%

Intervention

Late 1970s-1980s:

- Renaissance II, PPP 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.
- Success does not extend to Pittsburgh's suburbs.

Explanation

- Commercial development = low vacancy + corporate and public leadership + incentives
- Principal impact of land taxation: precluded increases in other taxes, e.g. the wage tax

Tools to Incentivize Development

Development can only occur when it creates a supportable land value for the developer.

Land Value for Development

- Land Value for New Structured Parking

= Value of Land to Developer

- Excess Land Value/Surface Parking Value to Parking Lot Owner

*- Cost for Replacement Structured Parking**

= Actual Market Value of Land

*if necessary

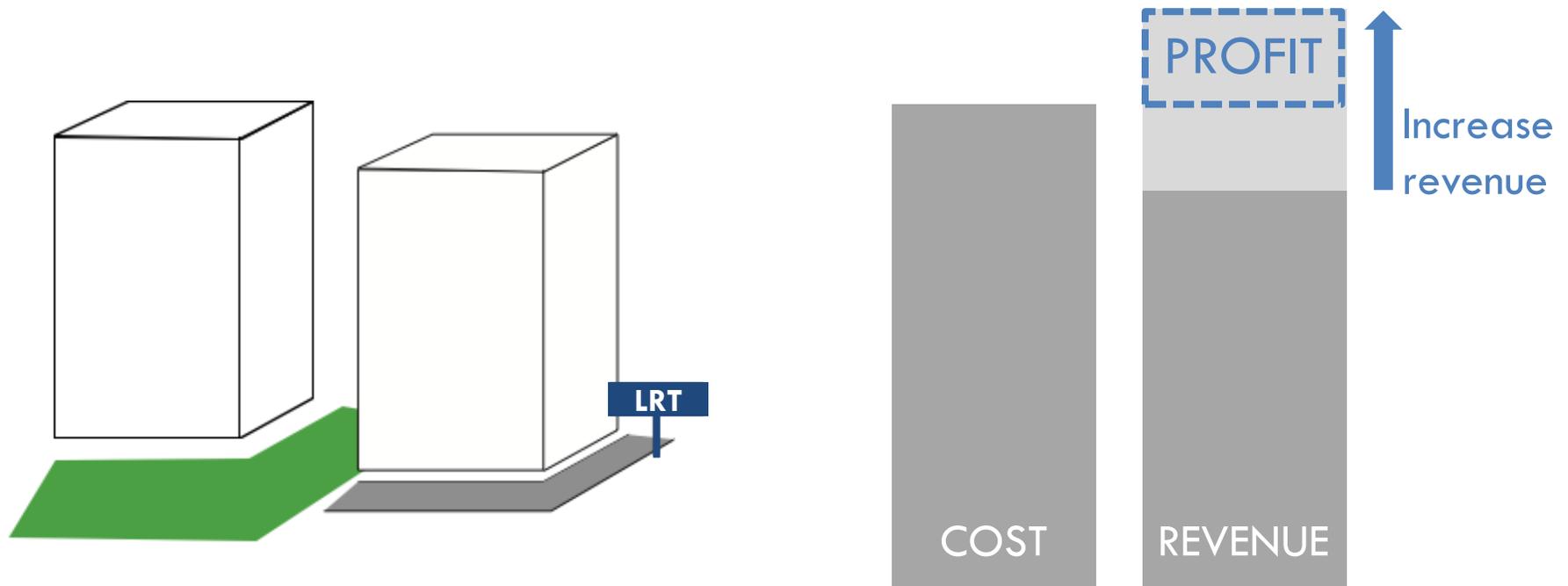
Our local economic and case study analysis suggest the value of exploring four tools to incentivize development in East Downtown.

- 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' proformas
- 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.

Increase Project Cash Flows

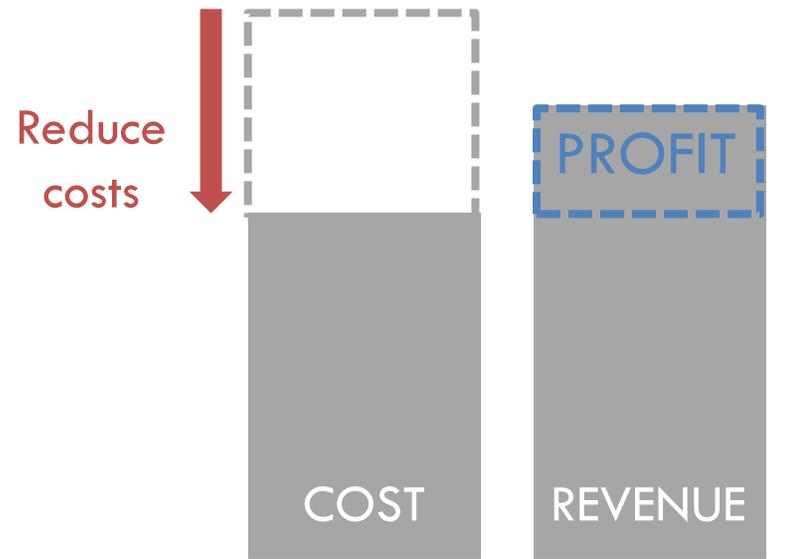
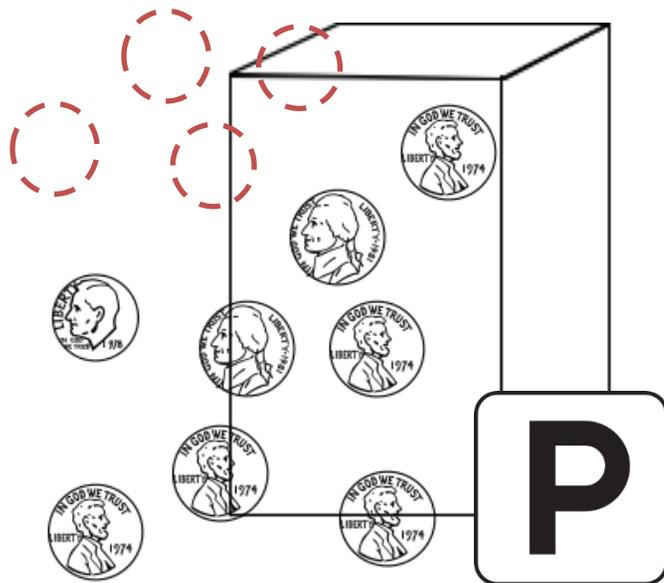
- Master planning and investment in the public realm can boost the desirability of transitional areas.



Even after demand has been spurred, acceleration of development may require filling gaps in developer pro formas.

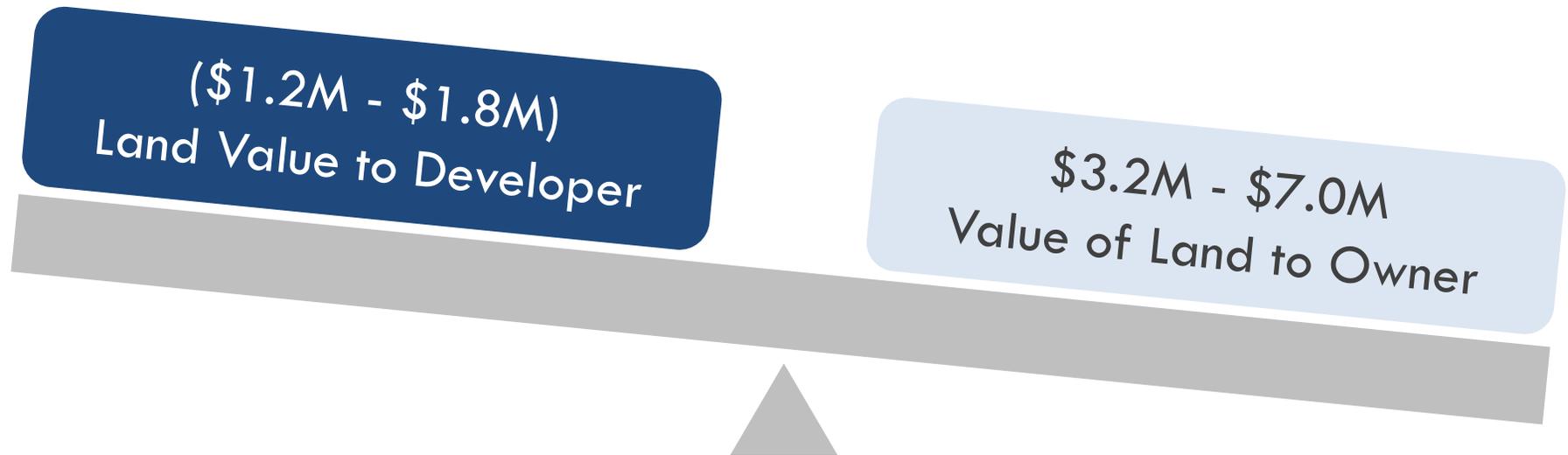
Decrease Development Costs

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



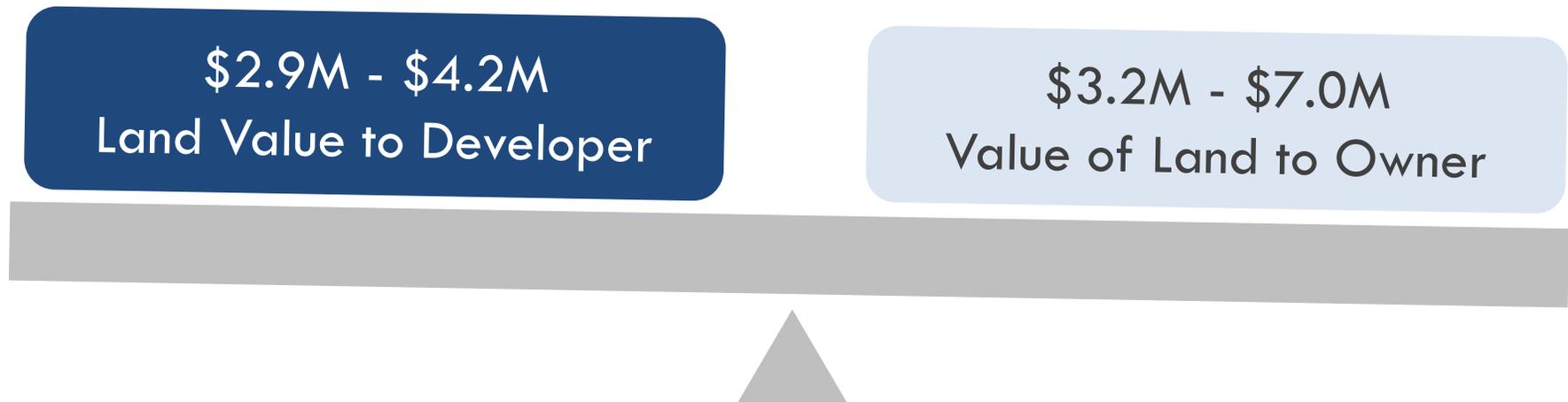
These tools work best if gaps are relatively modest.

Re-examining Scenario 2:
Multifamily development on a family-owned lot
Current market rents



If the construction of parking is removed from the developer's balance sheet, Scenario 2 becomes almost feasible even at current market rents.

Re-examining Scenario 2:
Multifamily development on a family-owned lot
Current market rents, parking off-balance sheet



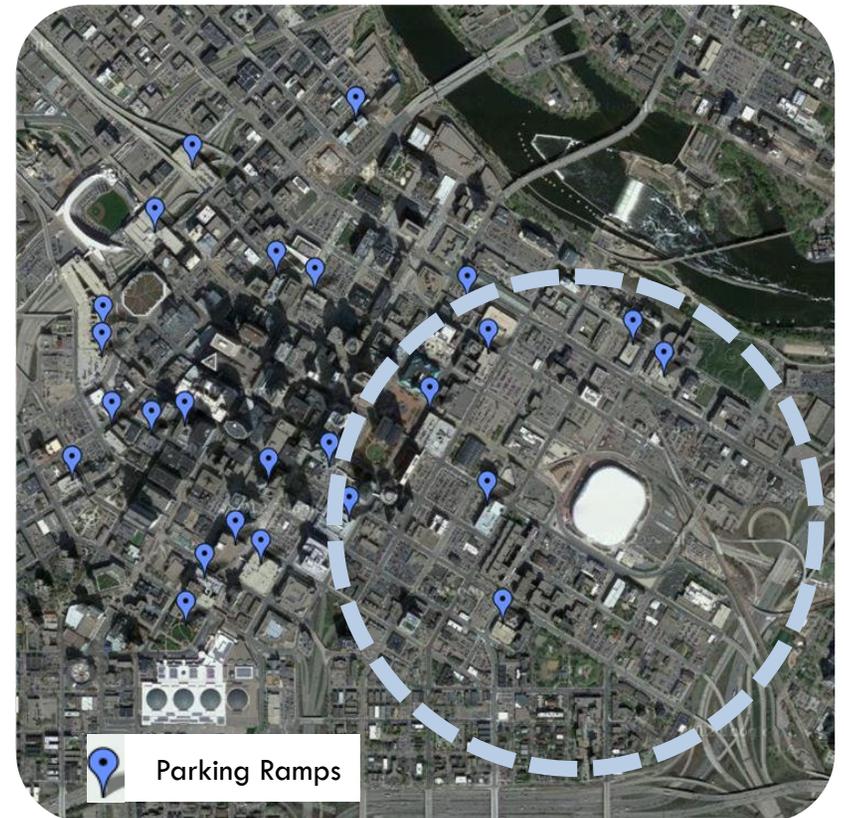
There are several options the public sector can utilize to alleviate the impact of structured parking costs on development economics.

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



Sources: City of Minneapolis Department of Public Works, & Google Maps

Once demand has been spurred and development costs decreased, the public sector may move to attempt to decrease lot owner cash flows.

Without
development
interest

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

As developer
interest is spurred

- Positive Results
- Tax increases on lots may provide fiscal flexibility, justification for subsidy outlays

Next Steps: 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

Urban parks become successful when compact and actively programmed for surrounding residents and workers.



Bryant Park, NYC



Fountain Square, Cincinnati



Franklin Square, Washington DC



Second Ward, Charlotte

Discussion



East Downtown Parking Lot Study

Prepared for:
City of Minneapolis
Department of Community Planning & Economic Development