

UPPER MISSISSIPPI RIVER MASTER PLAN

SUMMARY OF ECONOMIC EFFECTS

The preferred land use plan proposed for the Upper River includes:

- The addition of 91 acres of new park land and trails,
- The intensification of economic activity and jobs through redevelopment of 176 acres of land currently in industrial use,
- The development of new housing units on 56 acres in the study area, and
- Selected commercial/retail development related to either new residential development or new park space.

This plan has been created from among several alternative land use plans. It is intended to balance the objectives of providing greater recreational space and increasing the economic vitality of the region. In fact, increasing the corridor's economic vitality is vital to the success of the overall vision. The added jobs are an important outcome that helps to justify the public investment. More importantly, the added property value within the study area generates additional property tax revenues that help to pay the costs of developing the public spaces and other infrastructure.

This report includes our broad-brush estimates of the economic implications of the land use plan being proposed. Based on the preferred alternative land use scenario put forward in the Master Plan, we project:

- the number of new jobs created in the corridor,
- the amount of new industrial development (in square feet),
- the amount of new office development,
- the amount of new residential development,
- the total amount of public investment required to complete the plan,
- the total amount of new private investment,
- the additional property taxes generated by new developments, and
- the change in the area's population as a result of the plan.

The following sections summarize the reorientation of land uses within the Upper River corridor and show the expected economic impacts of the plan

Land Use Plans

This master plan is a general framework to guide land use decisions over a long period of time, perhaps 30 years or more. Since most of the development over this thirty-year period will be private investment, it is to be expected that there will be modifications and refinements of this plan

in response to market forces and changing economic conditions. The following table illustrates the reallocation that is currently envisioned.

Upper River Corridor Land Use

(in Acres)

Land Use	1998 Existing	Future Plan	Net Change
Parks and Open Space	80	171	+91
Industrial and Service Commercial	405	229	-176
Retail Commercial	24	29	+5
Residential	290	346	+56

This reallocation of land inside the corridor will have profound economic effects. The impact of these proposed land use changes and the redevelopment associated with them is estimated in the subsequent sections.

Economic Effects

The implementation of the land use framework being proposed for the Upper River corridor will have a substantial economic impact on the area. The following sections include our estimates of the impact of the land use changes.

Employment

At the current time, approximately 11,000 people work in the study area bounded by Lyndale Avenue on the west and by Second Street N.E. on the east, the Camden Bridge on the north, and Plymouth Avenue on the south. They are employed by about 350 companies and organizations located within a few blocks of either side of the river. These companies currently occupy approximately 429 acres inside the study area. During the 90s, area employment increased by about a thousand jobs with the majority of the growth occurring ³⁻¹⁻⁹³ in the area of the river.

About 54 percent of current employment is concentrated among the 8 largest employers, ten of which are manufacturers. These larger manufacturers together with a number of other industrial firms employ roughly 43 percent of the area's workers. In addition, there are several companies that employ relatively few workers on large parcels of land.

Impact of preferred plan

The impact of the preferred scenario would involve the reallocation of some of the industrial and commercial land to other uses but would imply the net addition of a substantial number of jobs to the community. This would be accomplished over approximately the next five years through the redevelopment of existing vacant or underutilized parcels in the study area and the development of some office and retail establishments in the later years of the plan. Assuming that the land

area designated for light industrial uses can be developed at job densities consistent with the MCDA's guidelines, the potential employment growth in the corridor would be between 2,000 **and 2,400 net new jobs added.**

The overall plan envisions the relocation of some businesses to different locations inside the Upper River corridor. In addition, it is possible that there would be a selected movement of a few companies to locations outside of the Upper River area. Overall the number of jobs which would probably be displaced from the Upper River corridor is estimated to be no greater than 100 or less than 5.5 percent of the current workforce. This amount is far less than the number of jobs that could be expected to relocate over such a long period of time because of normal economic change.

Commercial property

At the present time, commercial and industrial property occupies about 400 acres in the Upper River corridor, or about half of the land area. The 472 commercial properties in the study area had an estimated market value of \$5 million in 1998. These properties currently pay roughly \$5 million in annual property taxes to the City, Hennepin County and the school district.

During the decade of the 90s, property values overall have risen in dollar terms, but the experiences of the two sides of the river have been very different. Property values on the east side of river increased by 32 percent between 1990 and 1998, while property values on the west side were basically unchanged over that same period.

Impact of preferred plan

The land use scenario embodied in the preferred plan involves a concerted effort to increase both jobs and commercial tax base in the area through the reuse of a portion of the commercial land in the corridor to support increased economic value and increased economic activity. In some cases, this will involve the reuse and refurbishment of existing buildings. The Minneapolis Community Development Agency may participate in the redevelopment of some properties as it is currently doing in the North Washington Industrial Park. In either private or publicly-assisted redevelopment, the assembly of developable parcels might involve the relocation of some businesses to other locations inside or outside of the corridor.

Market forces will determine the actual course of private development over the next 30 years. However, the land use plan in the preferred alternative lays out a pattern of development which gives some indication of what could be accomplished in the roughly 100 acres allocated to new development in urban or commercial development. The plan provides for the building of:

- 1.7 million gross square feet of new light industrial space
- 350,000 gross square feet of office space
- 160,000 gross square feet of new retail space

These numbers do not include the redevelopment of the historic Grain Belt Brewery site that would add additional square footage to some of these categories.

Some of this commercial development would happen at the site of existing commercial buildings so there would be some loss of space that should be subtracted from these numbers to produce net addition to the commercial tax base. After estimating the likely volume of displacements, though not the exact locations, we estimate the following **net addition to commercial property in the corridor:**

- **1.3 million gross square feet of new light industrial space**
- **350,000 gross square feet of office space**
- **160,000 gross square feet of new retail space**

This additional commercial property would raise the value of commercial tax base within the area by **approximately \$97 million in current 1998 dollars.** This addition to tax base would be expected to generate as much as **3 million in annual property tax revenues**, though that quantity is somewhat harder to estimate with precision because of the possibility that certain tax incentives might be used for certain developments. It should be noted that this estimate is conservative and does not include an estimate of the increase in the value of existing property that would not be redeveloped.

Residential property

The housing stock within the study area is predominantly single-family homes. In 1998, there were 2,704 homes in the study area, approximately two-thirds of them located on the west side between Lyndale Avenue and 1-94. Approximately 75 percent of these housing units are owner-occupied. Their market value totals \$152 million dollars.

During the decade of the 90s, the total value of area housing has risen by about 5 percent, without adjustment for inflation. However, the trends differed on each side of the river. Since 1990, average prices on the east bank have increased by about 13 percent while values on the west bank have remained constant in dollar terms. On the west bank, owner-occupied houses have increased slightly in value in the last eight years, but the average value of rented homes has dropped by about 17 percent.

Impact of preferred plan

The land use plan in the preferred alternative would create about 2,400 new housing units on land being converted from other, mainly, industrial, uses. Once again, market forces will determine the exact composition of the housing units that are actually built. However, the assumptions embodied in the plan are for 4,000 units, to be owner-occupied while 1,000 would be rental units. The densities range from townhouses at 10 units per acre to apartments and condos at 50 units per acre. Since the plan contains virtually no redevelopment of existing land, the entire number of new units represent net additions to the area's housing stock.

The estimated value of the **new housing produced in the corridor is \$445 million** measured in 1998 dollars. This added real estate value would add approximately **\$12 million to annual property tax revenues**, again measured in today's dollars.

The addition of these new housing units would result in an estimated increase in the area population of around 4,400 people. Of that number, it is estimated that between 400 and 500 would be children.

Parks, Trails, and Public Open Space

Presently, there are several parks in the study area, which total 80 acres. On the west side, the only green areas on the river are at the north end of the corridor and the southern end. On the east side, several isolated small parks border the river, Marshall Terrace, Edgewater, and Gluek. However there is no continuous river edge open space.

Impact of preferred plan

Of course, a major goal of this plan is to create continuous public open space along both sides of the river. The preferred plan involves:

- 91 acres of additional park land, including
 - 5.25 miles of additional parkway roads and
 - 14.6 miles of additional pedestrian and bicycle trails

Since these facilities and lands will be public, their development does not increase the area's tax base or add to property tax revenues as private development would. However, the park land will contribute to the economy by encouraging private housing investment along the river corridor. It is aiming at reviving the value of that investment, and, to a lesser degree, promoting commercial investment. Over a broader area, housing values and the quality of life would be enhanced by the new parks, parkways and trails.

Financial Impact

There are two elements to the financial impact of the implementation of this master plan: financial investment and ongoing financial flows.

Total Investment Impact

The completion of this development plan for the Upper River Corridor will involve substantial public and private investment over the thirty-year horizon envisioned in the plan

The public investment will be of two kinds. First, there will be direct investments in the parks and parkways and the improvements that are tied to them. These costs will not only include the clearing the land and making the park and parkway improvements. They will also include the costs of the improvement of gateway streets, the building of pedestrian bridges across

1-94, conversion of the Burlington Northern Railway Bridge and added lighting for the Lowry Avenue Bridge.

Second, there will be additional public capital costs associating with completing this vision of the river corridor development. These costs will be associated with assembling parcels of land for residential, commercial development on both banks of the Mississippi. In order to realize this vision for the river, it may be necessary to assemble developable parcels of land through purchase, make site improvements and resell them to private developers. Frequently the proceeds from resale do not cover the costs of assembly. While land is held in public hands, the foregone property taxes that would have been paid by a private owner represent another public cost. In addition, there may be additional public participations or incentives to private firms that may be deemed necessary to facilitate private developments in the corridor.

Private investments will be of several types: low- and medium-density residential developments, office properties, retail and entertainment developments, and industrial buildings. Some developments may contain a mix of different elements.

The table that follows sets forth our estimates of the public and private investments to complete the river corridor redevelopment. The second set of public costs, those not associated with the parks and parkways are very difficult to anticipate with accuracy because plans for private redevelopment are general not specific. The private costs are based on an assumed mix of different types of private projects but it should be understood that the actual composition may vary from this as needs and conditions change over 30 years. In estimating these costs, no attempt has been made to include soil remediation costs because they are just too hard to anticipate without extensive scientific testing. Finally, no attempt has been made to allocate the estimated public costs among different possible public jurisdictions and agencies.

**Estimated Investments to Complete
The Upper River Corridor Plan
(in 1999 dollars)**

Public Investment

Parks, Parkways and Related Development	\$105 million	
Facilitate Private Development	<u>\$125 million</u>	
		\$230 million

Private Investment

Industrial	\$ 58 million	
Residential	\$445 million	
Office	\$ 27 million	
Retail/Entertainment	<u>\$ 12 million</u>	
		\$542 million

This total investment of \$772 million would be made over the course of the next thirty years to complete the change in the Upper River corridor. Of course, some of the public investment will be returned to the public sector through higher property taxes. These revenues may initially be captured in a tax increment district and later go directly to the City after the district is retired.

Tax Revenue Impact

If the redevelopment were completed today through the waving of a magic wand and the private development had proceeded as assumed in these estimates, the new private properties would produce \$17 million of annual commercial and residential property taxes over and above the taxes now being generated in the Upper River corridor. This \$17 million dollar amount is denominated in today's dollars and would likely be higher 30 years from now based on inflation and asset price growth in the intervening period.

There are three additional reasons why that \$17 million figure, even if adjusted for future inflation, understates the net financial impact of the plan on public sector revenues.

First, the commercial properties that would not be replaced during the redevelopment will probably appreciate faster than they have historically once the riverfront transformation begins.

Second, there would be some positive impact on the values of existing homes in the study area. This effect is likely to be more pronounced for homes on the east side of the river. Single family homes on the west side of the river that are located west of the freeway might experience a smaller impact because of they are somewhat more removed from the river amenities. Furthermore, on the west bank, the accomplishment of this plan would probably encourage a higher percentage of home ownership over time. While increased ownership is good for the neighborhood, it lowers the increase in tax revenues that would accompany higher property values because homestead taxes are lower than the taxes paid by landlords on the same property.

Third, the "halo effect" on the value of residential and commercial property may extend beyond the narrow study area and raise values over a broader area of North and Northeast Minneapolis. It is not possible to estimate the size of this possible effect at this time.

Social Impact

In addition to the economic and financial impacts, the accomplishment of the redevelopment of the Upper River along the lines set forth in the master plan will have a profound impact on the quality of life for many people.

- Residents of the surrounding neighborhoods will have access to a recreational and scenic resource comparable to those in other parts of the City.
- Residents of the Twin Cities will have a new recreation destination.
- More people will be employed in the Upper River corridor, as many as 2,400 more than do so today.
- More people will live in the Upper River corridor than do today, as many as 4,400 more, of whom perhaps 500 will be children.