

DEVELOPMENT OF

ARTS & CULTURAL FACILITIES

A 2021 Market-Based Analysis for

PROSPECT PARK • TOWERSIDE



By Prospect Park 20/20

Credits and Acknowledgements

Prospect Park 20/20, the sponsor of this report, is a 501(c)(3) non-profit community development corporation formed in 2013 to re-imagine and inspire the redevelopment of the area surrounding Minneapolis's Prospect Park light rail station. Prospect Park 20/20 commissioned this report to promote and assist additional arts and cultural development within the Prospect Park portion of the Towerside Innovation District.

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The project team gratefully acknowledges the following who have assisted in the preparation of this report: Peter Berrie, Partner, Faegre Drinker Biddle & Reath LLP law firm; Jeff Ellerd, Developer, Wall Companies; Karl Reichert, Executive Director, Textile Center. This report does not necessarily reflect the views of these persons. The project team is wholly responsible for the contents of this report and any errors contained within.

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This report is intended to help inform what must be a broad-based dialogue involving numerous stakeholders and diverse voices to assure a place for arts and cultural organizations in the Towerside Innovation District. In reading this report, it is necessary to keep a focus on its limited scope and the important work that remains to be done.

This report *does*:

- Explore several options for financially viable arts and cultural development at potential sites within Prospect Park Towerside.
- Solve the real estate development “math problem” of identifying the equation that will make it financially feasible to develop arts and cultural facilities in a high-value real estate market.
- Provide technical analysis that will contribute to the broader community effort to bring arts and cultural development to Prospect Park Towerside.

This report *does not*:

- Address vital questions regarding the types of arts and cultural facilities and programming that will best address diversity, equity, and community needs.
- Provide actual architectural designs for any buildings, landscaping, or necessary street level walking and cycling improvements.
- Determine whether the owners of the potential sites would be interested in selling or redeveloping their properties.

The May 25 murder of George Floyd focused worldwide attention on Minneapolis and the imperative of addressing racial disparities within the city. At the same time, we are experiencing the COVID-19 pandemic, which presents new challenges in designing arts and cultural facilities that can bring artists and members of the community together while maintaining safety, health, and well-being. Rapidly rising land costs make it all the more difficult for arts and cultural facilities to find a place within the city.

Now is the time for action. This report offers development concepts with pro forma financial analyses that could be pursued immediately if they are found to meet stakeholder requirements. The goal for 2021 should be to continue the community process and obtain developer and arts and cultural organization commitments for at least one new arts and cultural project in Prospect Park Towerside.

Executive Summary

Arts and cultural organizations play a vital role in redeveloping communities. However, rising land values pose a major challenge to the ability of arts and cultural organizations to locate within redeveloping areas. Without careful planning and direct intervention, facilities for these organizations will not be included in the redevelopment mix. The purpose of this study is to explore practical solutions for ensuring that arts and cultural organizations will be able to thrive within rapidly rising real estate markets.

Prospect Park Towerside is the portion of the Towerside Innovation District within the Prospect Park neighborhood of Minneapolis. Towerside is envisioned as a place where core values—including diversity, equity, sustainability and innovation—will promote economic development and provide a model of a complete 21st century community for urban living and working. The Towerside vision emphasizes the importance of arts and cultural organizations within this new community. This is consistent with the Minneapolis 2040 Plan, which also provides strong support for the role played by arts and cultural organizations within the city.

Prospect Park Towerside has a long history as a setting for creativity. The district is the home to Textile Center, America’s only national center for fiber arts, with a combination of programs and resources unlike any other in the country. Prospect Park has been its home for over 20 years. Additionally, it is the home to art studios and creative makerspaces. Perhaps most importantly, it is adjacent to the creative faculty and student environment of the University of Minnesota with its studios, classrooms, galleries, and museums. Prospect Park Towerside has enjoyed great success in attracting new residential and commercial development in recent years. The associated increase in land values, however, has made it increasingly difficult for arts and cultural organizations to locate within the district.



It is the declared desire of the City of Minneapolis and Towerside that arts and cultural organizations—their members, audience, clients, and students—be an integral component of the Innovation District. Additionally, we know that many arts and cultural organizations would greatly value a location in the heart of the metropolitan area, adjacent to the University of Minnesota and on the Green Line. Although there are many factors that determine where these organizations choose to locate, successfully addressing the equation of initial cost, financing, operational costs and long-term financial stability is the primary factor that will drive choice of location.

The need for action to preserve opportunities for arts and cultural organizations is urgent. This report identifies specific planning and development actions that can be taken now to ensure that arts and culture will have a growing and energizing presence in the Innovation District. The development concepts presented here were prepared by a team of urban planners, architects, and development specialists for specific sites and utilize existing project financing mechanisms.

This report describes in detail how this fundamental economic challenge is met for arts and cultural organizations. It models how their facility needs and aspirations can be affordably developed in this district with high land costs by means of partnering with a developer who would value their presence and would offer the potential of shared assets including parking, green space, and community spaces. This report illustrates to developers and investors how, by means of specific planning concepts and the use of existing financial mechanisms, properties in the district developed in collaboration with arts and cultural organizations will distinguish or “brand” their projects, gain broad community support, and be a powerful magnet to customers and tenants.





Along the Green Line/University Avenue corridor in Prospect Park Towerside, significant new developments have been constructed that add over 1100 units of housing (including 136 affordable, 283 senior and 243 micro units), a hotel, and vital services in the form of a full-service grocery store and commercial space. An additional 500 units of housing and significant commercial space will begin construction in 2021. Supporting this redevelopment is the recently completed pedestrian-oriented Green Fourth Street, the initial component of an interconnected stormwater management and reuse system, a public park, an identified plan for connecting to and completing the Minneapolis Grand Rounds Parkway, as well as plans for the first phase of a district heating and cooling system.

Missing from this transformation are permanent and affordable places for arts and cultural organizations. In a market-based economy where cities are growing and becoming more dense, real estate values rise to levels beyond the economic capacity of arts and cultural organizations.

Local Initiatives Support Corporation (LISC) and Prospect Park 20/20 funded this study to examine the question of how to provide for arts and cultural facilities from a financial standpoint, both locally and in other communities, where development is driving up property values. This is a technical report. It lays out a number of possible development concepts and associated real estate economics that are achievable in today's marketplace with today's tools and resources. This understanding of location specific marketplace economics is the starting point for development of arts and cultural facilities in Prospect Park Towerside or any real estate market. This report is intended to contribute to a broad community discussion and to move those discussions to action.

Setting

Rapidly accelerating real estate values have dramatically reduced the opportunities for arts and cultural organizations to locate in the Towerside Innovation District. In recent years, land values in Prospect Park Towerside have escalated from below \$30 per square foot to upwards of \$80 per square foot based upon comparable sales.

The district consists of 370 acres at the geographic center of the Minneapolis-St. Paul metropolitan area on the east bank of the Mississippi River. It includes land in both the cities of Minneapolis and St. Paul and Hennepin and Ramsey counties. The district extends from the University of Minnesota campus on the west in Minneapolis to Highway 280 in St. Paul on the east. The Green Line light rail transportation corridor forms the spine of Towerside, and three Green Line stations are located within the district. Prospect Park Towerside is the portion of the district within the Prospect Park neighborhood of Minneapolis.

The Green Line is a connector for a host of arts and cultural organizations that it serves between the downtowns of Minneapolis and St. Paul. With the exception of Textile Center, however, there is today a dearth of arts and cultural organizations along the stretch that passes through Prospect Park Towerside.

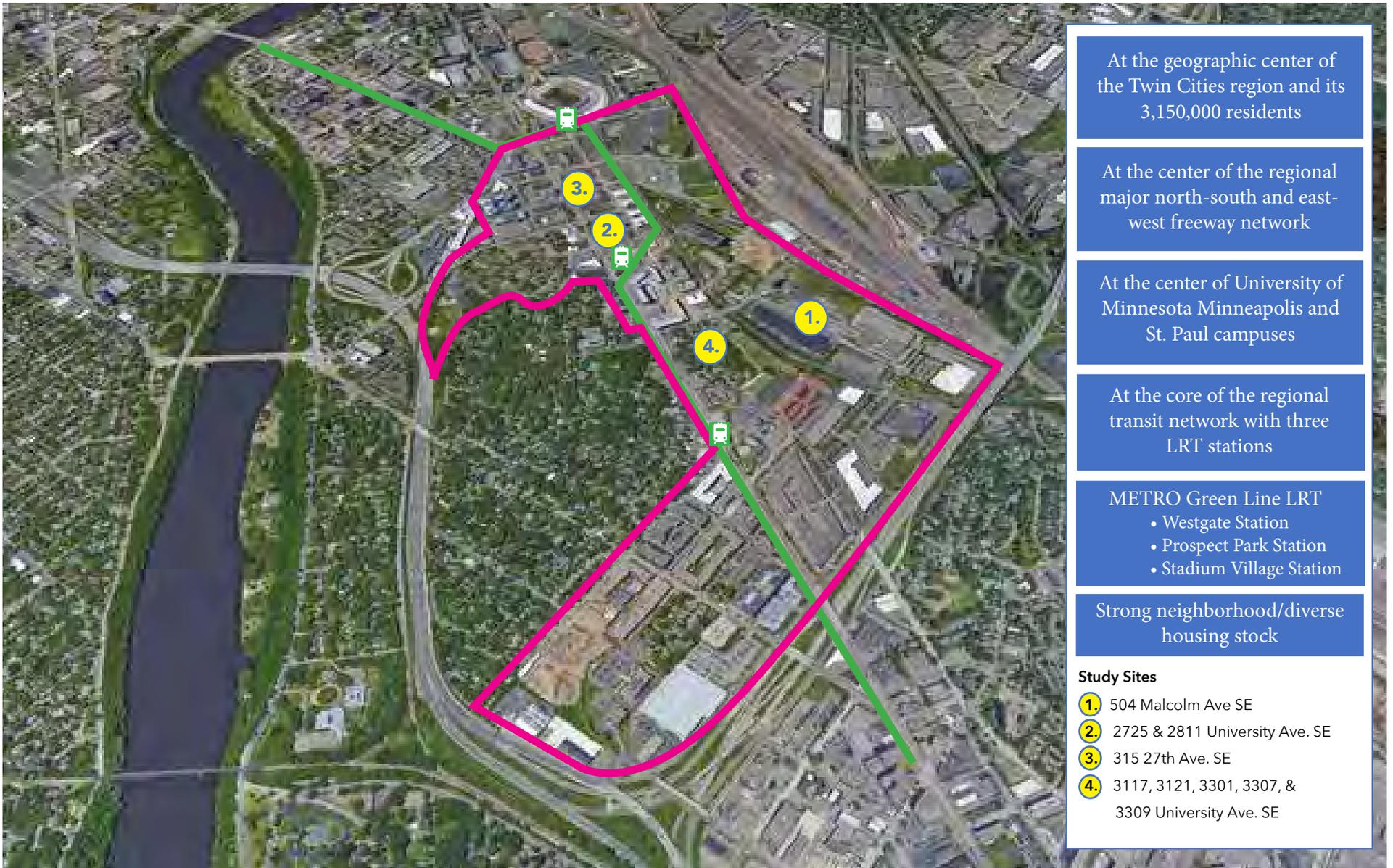
In 2016, the cities of Minneapolis and St. Paul officially designated Towerside as an Innovation District. As stated in the *Towerside Framework for Planning and Implementation*, "Towerside is envisioned as a dynamic engaging place that attracts, connects and inspires thinkers, doers and makers who power the region's new economy." The Towerside vision identifies eight key elements, including the arts and culture, that will contribute to Towerside as a complete community and the success of Towerside: "Economic Competitiveness; Research and Innovation; Public Realm; Sustainability and Resilience; Healthy Living; Diversity and Equity; Lifelong Learning; Design, Arts and Culture."

Support for arts and cultural organizations is central to the vision for Towerside as an innovation district and is also strongly emphasized in the Minneapolis 2040 Plan and the plans of the Prospect Park Association. In addition to the intrinsic value of the arts, a robust creative community is an important source of employment and supports development of new businesses in technology and other sectors that emphasize innovation. Textile Center and other arts and cultural organizations thrive on the proximity of like organizations.

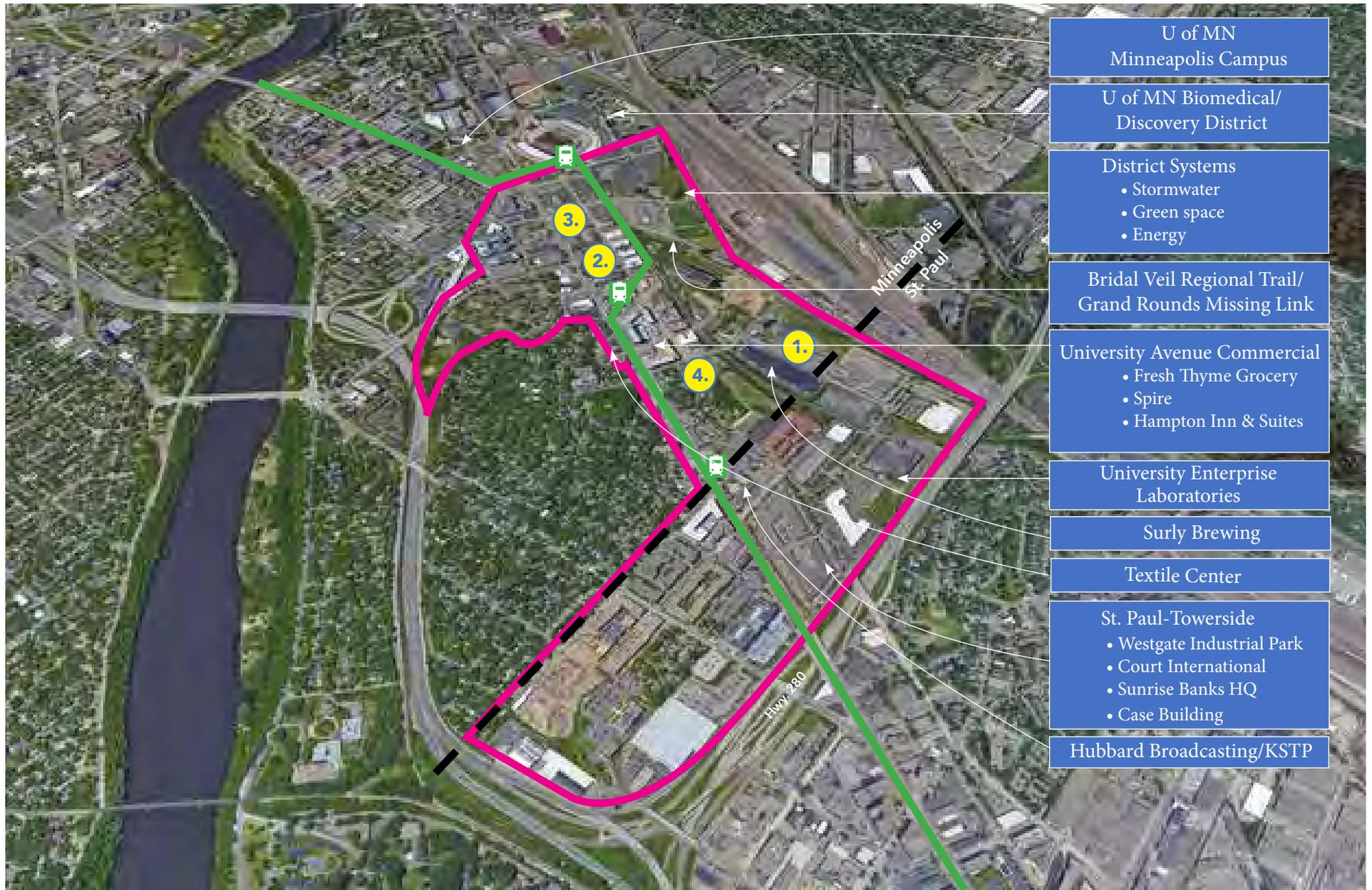
Towerside is not just a place that exists in plans. The district is notable for the amount of actual construction that has already taken place. A complete chronological list of projects completed, under construction, actively being planned and developed at this time appears in an Appendix at the end of this report. This development activity has contributed to rapidly increasing land values in Towerside and the challenge for arts and cultural organizations.

The focus here on Prospect Park Towerside is based on reinforcing and growing Textile Center, capitalizing on the University of Minnesota's cultural resources, capturing the value of these assets to enrich the Glendale Townhome community, and taking advantage of the benefits of linking arts and culture to the connecting public realm of the Bridal Veil Regional Trail and Grand Rounds Scenic Byway System.

Towerside Innovation District Study Sites



Towerside Innovation District Assets



U of MN
Minneapolis Campus

U of MN Biomedical/
Discovery District

District Systems

- Stormwater
- Green space
- Energy

Bridal Veil Regional Trail/
Grand Rounds Missing Link

University Avenue Commercial

- Fresh Thyme Grocery
- Spire
- Hampton Inn & Suites

University Enterprise
Laboratories

Surly Brewing

Textile Center

St. Paul-Towerside

- Westgate Industrial Park
- Court International
- Sunrise Banks HQ
- Case Building

Hubbard Broadcasting/KSTP

Textile Center sits in the heart of the Towerside Innovation District and has made its home in Prospect Park since 2001. A national center for fiber art, Textile Center draws thousands of visitors each year thanks to its exhibitions, classes, lectures, retail artisan shop, library, and dye lab. Many more people participate in its outreach programs throughout the Twin Cities and the state.

Textile Center embraces all forms of fiber art including weaving, quilting, knitting, sewing, dyeing, felting, needlework, lace-making, beading, sculpture, installation, soft sculpture, and multi-media pieces. Textile Center is also home to the Weavers Guild of Minnesota and opens its spaces to more than 25 other fiber art and textile guilds and organizations.

Founded in 1994, Textile Center selected Prospect Park for its new home in order to be located between the downtowns of Minneapolis and Saint Paul and adjacent to the University of Minnesota. This location is linked to other colleges by major arterial streets and bus routes. It is also at the crossroads of the metropolitan region's principal north-south and east-west freeways.

The burst of development ignited by the opening of the Green Line in 2014, including thousands of apartments, commercial space, hotels, parks and Surly Brewing, greatly magnified public awareness of Textile Center programs and spurred participation and support. This growth, which includes workshops with renowned artists and symposia dedicated to fiber art, has positioned Textile Center to become a national leader and urban destination for fiber art programs and artists.

As a founding member of Prospect Park 20/20, Textile Center endorses this market-based analysis for the potential development of arts and cultural facilities within Prospect Park. Textile Center and the community would benefit significantly if other arts and cultural organizations had a path forward that can make it financially feasible to make their home here. The greatest benefit of developing a cluster of arts and cultural organizations would be that together they inspire and nurture one another, share resources, spark civic dialog, encourage community engagement, support movements for equity and social justice, and contribute to the vibrancy of community life.

Textile Center's mission is to honor textile traditions, promote excellence and innovation, and inspire widespread participation in fiber art.



Towerside Principles

Arts, Culture, and Towerside Guiding Principles

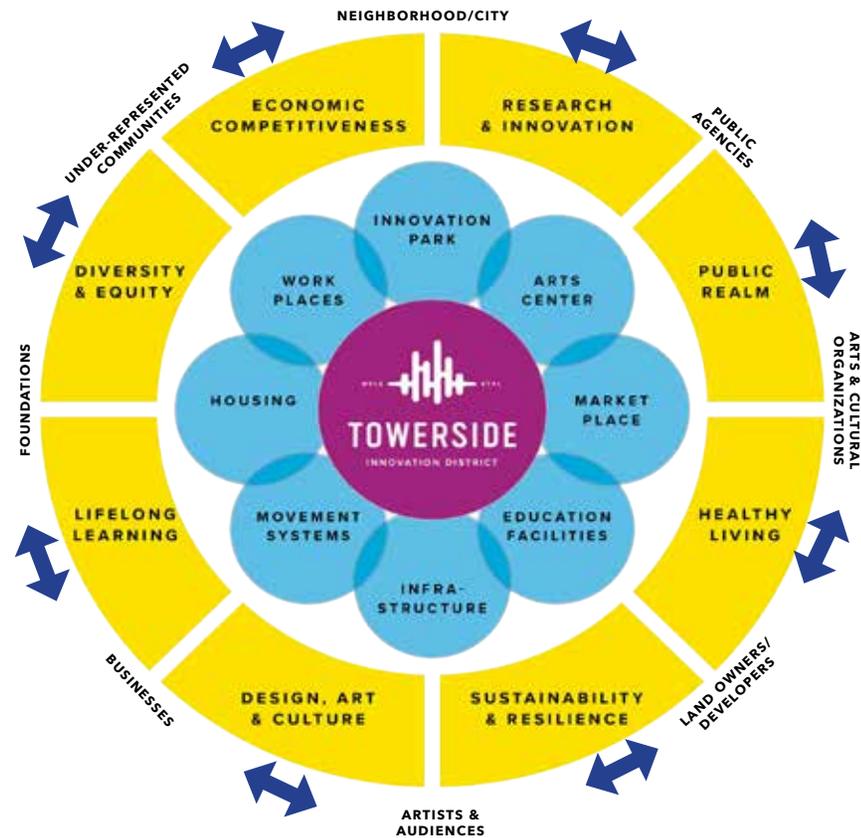
"Guiding principles include sustainable and restorative infrastructure. Innovative new businesses rooted in the arts and sciences. Small and large, long-standing and new businesses. Multi-modal connections and places. An emphasis on the new types of places, design, services and technologies that the market is and will be demanding vs. old disconnected and unsustainable models for development.

"Inherent in Towerside's principles is the need to create the atmosphere that will be the magnet for the people, the talent, the innovative thinking, the makers, doers and dollars we're seeking. We must recognize and honor the DNA of existing neighborhoods and express its connection with what we have branded as Towerside.

"Art and creativity are essential to place-making as well as to creating a community of learning and discovery. As a reflection of lives and experience, arts, crafts and culture build bridges and make connections among neighbors, businesses and institutions. Arts and crafts can support activities across race, age, gender, ethnicity and religion. They foster community engagement, encourage and facilitate equity and diversity. The imagination and inspiration sparked by artistic pursuits energizes community life, civic dialogue, discovery and will contribute enormously to creation of the district's atmosphere.

"The greatest contribution artists, makers, doers will make to Towerside is the way they think. It is not about a specific piece of public art or project, it will be their role in place-making, bringing imagination and inventiveness to urban problems and opportunities. This hard to quantify, important element demands our concentrated attention if we are to fulfill the promise for Towerside."

–Towerside Website, <https://www.towersidemp.org>

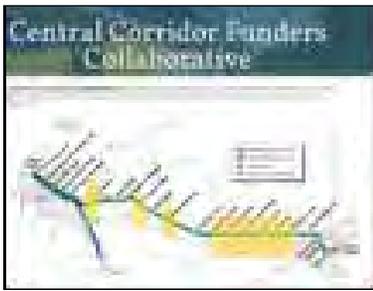


The blue and yellow inner rings of the Towerside "Daisy" from the *Towerside Framework for Planning and Implementation* identify the essential elements (yellow ring) underlying the Towerside vision and the physical facilities (blue ring) necessary for the realization of this vision. Prospect Park 20/20 has added a new outer ring to identify the people and organizations that must all play a part in arts and cultural development.

Community Engagement and Planning

Arts and cultural organizations play a unique role in reflecting the values and traditions of the community, building bridges and making connections between businesses, institutions and neighbors. They inspire, lead, and support activities and programs (classes, theater, exhibit, maker space, music, gathering) across race, gender, sexuality, age, ethnicity and religion. They encourage community engagement, movements for equity, and social justice.

This study was preceded by extensive public engagement and community processes, all of which support the pivotal role played by arts and cultural organizations within Minneapolis, St. Paul, and their neighborhoods, including:



Central Corridor Funders Collaborative, (2007-2016)

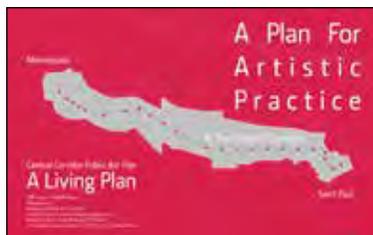
"In conjunction with development of the Green Line LISC launched the C4 program in support of six community based organizations that leverage arts and culture to highlight local diversity, bring communities closer together and boost neighborhood economies. In a three year period Prospect Park 20/20, in collaboration with its C4 partners, worked with over 350 artists, hundreds of businesses and residents and attracted nearly 10,000 people to the districts to participate in arts and cultural activities along the Green Line."



Prospect Park 20/20, Prospect Park 2020 Vision (2011)

"Beginning in 2010, Prospect Park 2020, Inc. was formed to re-imagine and inspire the redevelopment of the area surrounding Minneapolis' Prospect Park light rail station in accordance with the principles developed by the Prospect Park Neighborhood Association."

"The vision developed by Prospect Park 2020 and endorsed by the community calls for an inspired assemblage of places to live, work, learn, discover, conduct business and play... a transit-oriented city-within-a-city and Innovation District that is a replicable model of 21st century sustainable urban living."



Central Corridor Funders Collaborative, A Plan for Artistic Practice (2013)

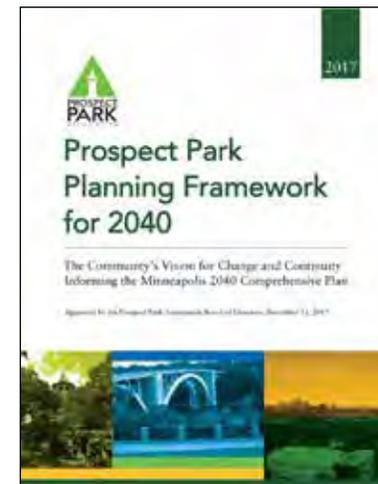
"The Central Corridor Public Art Plan proposes an organic process for the practice of public art, relying upon ongoing and iterative activity to generate the networks, institutions and resources that will be necessary to sustain a new approach to public art along the Central Corridor."

"It offers a vision for gathering and extending them to build a collaborative, cross-cutting practice of public art that is grounded in creative explorations and broad-based conversations vital to the Central Corridor's future."

Prospect Park Association, Prospect Park Planning Framework for 2040 (2017)

Community values that support arts and cultural facilities within Prospect Park:

- *Diversity and Equity*: inclusion of all residents in public activities, housing, recreational, educational, and employment opportunities. It also means sustaining a welcoming, open environment for visitors.
- *Arts and Culture*: opportunity for participatory art making, cultural festivals, music, visual arts, theatre, dance, and the literary arts.
- *Life-long Learning*: support for a learning community that affords opportunities for age-specific and intergenerational experiences.
- *Innovation, Experimentation, Economic Development*: creation of a living laboratory of new technologies and new ways of doing things.



Towerside Innovation District, Towerside Framework for Planning and Implementation (2018)

This document adopted by the Towerside Board of Directors establishes a planning and implementation framework consistent with the plans and goals of the St. Anthony Park neighborhood in St. Paul, the Prospect Park neighborhood in Minneapolis, and the University of Minnesota. It provides "project scale" guidance for individual sites and structures, and "community scale" guidance for use in achieving overall desired outcomes, physical, environmental, and socio-economic.

Design, Art, and Culture vision for the Innovation District:

"Authenticity and value come through concentrations of people producing art, cultural activity, and design of all kinds. Towerside is an intentional urban community infused with the arts and design."



City of Minneapolis, Office of Arts, Culture and the Creative Economy, The Minneapolis Creative Index 2018 (2019)

"Understanding and acknowledging the incredible economic impact of the nonprofit arts and culture, we must always remember their fundamental value. They foster beauty, creativity, originality, and vitality. The arts inspire us, soothe us, provoke us, involve us, and connect us. But they also create jobs and contribute to the economy."

Robert L. Lynch President and CEO Americans for the Arts

"[T]he creative economy produces solid revenues and fosters business, organization and job growth...The direct and indirect economic benefits of the creative economy are further bolstered by positive social contributions to community development and well-being."



Approach and Assumptions

Approach

This report analyzes four specific sites within Prospect Park Towerside that by location, size, and proximity to other assets are well-suited to arts and cultural organizations.

All four sites are located within a two-minute walk of the Green Line light rail stations. These sites are not necessarily on the market at the present time, and the owners and users of the sites were not consulted in the preparation of this report. If any of these sites are proposed for development, incorporation of existing users in the project or relocation within Prospect Park Towerside will be a high priority.

The means by which these sites could be developed at a cost in alignment with the financial capacity of arts and cultural organizations is examined from a market perspective. The following site-by-site pro forma analysis is based on land values, rents, interest rates, and construction costs prevailing as of approximately January 1, 2021.

The study is intended to inspire innovative partnerships, inform policy discussions, and to be a first step toward facilitating one or more projects in Towerside and along the Green Line. The study also strives to leverage current assets, particularly Textile Center, a national center for fiber art, as well as the 25 textile guilds that call it home. Above all, this analysis is intended as a numbers-based, case-study model for addressing this challenge throughout the metropolitan area, the major cities of the region, and the country.

Planning and Development Assumptions

All four development concepts are based upon the following common assumptions:

- 50,000 square feet will be allocated to arts and cultural facilities. This space could be the home to a single organization, possibly expansion space to related users, or planned to accommodate several organizations sharing common areas, auditoriums, washrooms, as well as other building features and systems. A minimum of 75 parking spaces will be available for arts and cultural facilities users.
- Rents for arts and cultural organizations will be set at \$22 per square foot gross. Based upon our preliminary investigations, rent at this level is consistent with the amount currently being paid by at least some arts and cultural organizations.
- The arts and cultural portion of the project will be tax exempt for purposes of property taxes. This may require the creation of a condominium or some other structure to allow separate non-profit ownership and use of the arts and cultural facilities.
- The type and scale of additional spaces developed on the site have been determined by the amount of revenue from these uses that is required to keep the cost of arts and cultural space at the affordable rate of \$22 per square foot gross.
- The project will be consistent with the land use, built form, and housing affordability requirements of the Minneapolis 2040 Plan.

Development Concepts and Pro Forma Analysis

Real estate developers commonly use pro forma analysis to evaluate the potential return on investment from a proposed project. Pro forma analysis is based upon the projected costs of developing and operating a project and the anticipated income.

The following pages summarize the pro forma analysis of the four mixed-use development concepts that are the subject of this report. This analysis is supported by data and calculations contained in extensive spreadsheets. The data is derived from actual market information on costs and rents.

The summary analysis provided here shows the projected yearly cashflow after debt for the concepts prior to the consideration of any rent subsidies for the arts and cultural portions of the projects. In each case, the projected cash flow is positive. The analysis also shows the percent of yearly cash flow after debt that would be needed to subsidize arts and cultural rents, based upon a subsidized rate of \$22 gross per square foot annually. The required subsidies range from 11% to 34% of yearly cash flow after debt depending on the particulars of the project.

This study is first and foremost a real estate development math problem aimed at identifying the equation that will make it financially feasible to develop arts and cultural facilities in a high-value real estate market. The sites selected for conceptual development are not known to be for sale but, by location, size, and nature of existing structures, they each model a different opportunity. As most properties in this area of the district can be assumed to cost approximately the same per square foot, the conceptual approaches explored here could be applied to other nearby properties. This study shows the way forward.

1. Office/Warehouse/Industrial Site 504 Malcolm Avenue SE

This seven-acre site is currently the location of a 140,000 square foot office/warehouse/industrial building. The site is located immediately across the street from Surly Brewing. The arts and cultural facilities will be located in a rehabilitated south facing portion of the existing building. The existing building will also house office and makerspaces. A new 17-story building positioned on Malcolm Avenue SE will be added to the complex to provide additional office space and 210 residential units. A portion of the existing structure will be demolished to allow the construction of a 1,000-space district parking structure. The development plans for Towerside recognize the provision of pooled district parking as a major priority. This project, with its large component of reusable existing space, provides the highest net cash flow after debt of any of the concepts presented in this report. This level of cash flow may allow some portion of project revenue to be directed towards subsidy of the arts and cultural facilities.

In the Minneapolis 2040 Plan, this site is designated for “Production and Processing” land uses and “Transit 15” built forms. The reuse of the site meets the requirement that the uses are focused on employment and supporting a diverse job base. The residential/office tower along the western edge along Malcolm provides support for the maker spaces in the retained industrial structure and the shared parking structure supports the “Production and Processing” uses of Surly Brewing, O’Shaughnessy Distillery, and Malcolm Yards. The new and reused structure supports the built form guidelines for building heights of at least four stories and up to 15 stories to take best advantage of the access to the Green Line LRT, jobs, and goods and services.

Planning Assumptions

| | |
|-------------------------------|-------------|
| Arts Center | 50,000 sf |
| Redeveloped Office/Makerspace | 100,000 sf |
| Residential Units for Lease | 210 units |
| Parking | 1000 spaces |

Sources and Uses

| | |
|-----------------------------|-----------|
| Site Purchase Price | \$12 mil |
| Total Development Costs | \$121 mil |
| Equity | \$30 mil |
| Total Financing | \$91 mil |
| Yearly Net Operating Income | \$9.7 mil |
| Yearly Cash flow After Debt | \$4 mil |

Arts and Cultural Center Subsidies

| | |
|-------------------------------------------|------------|
| Rent Rate per SF per Year | \$31 Gross |
| Average Subsidized Arts and Cultural Rent | \$22 Gross |
| Rent Subsidies Needed per Year | \$443k |
| % of Net Operating Income | 4.5% |
| % of Cash flow After Debt | 11% |





2. US Post Office/Restaurant Site 2725 and 2811 University Avenue SE

The existing structures on this 2.24-acre site include a US Post Office facility and a restaurant building. The development concept includes the demolition of the two existing structures and the construction of three new buildings set on a landscaped outdoor courtyard commons area with underground parking shared and accessible by the entire site and all three structures. In addition to arts and cultural facilities, the project will offer 31,000 square feet of office space, 200 residential units and 275 parking spaces. The arts and cultural facilities will be located in a stand-alone building fronting on University Avenue SE. Also positioned on University Avenue SE will be a 14-story building providing a mix of office and residential uses. A seven-story building fronting on SE 4th Street will provide additional residential units. This concept is notable for its courtyard commons shared by the arts and cultural center as well as the residential and office tenants. In addition to providing an outdoor venue for arts and cultural events, courtyard commons will also provide a pedestrian link between University Avenue SE, SE 4th Street, and the Green Line LRT Prospect Park station.

In the Minneapolis 2040 Plan, this site is designated for “Community Mixed Use” land uses and “Transit 30” built forms. The proposed mixed use multi-story redevelopment of the site meets the City’s land use goals. The City encourages projects that generate pedestrian activity and provide a destination for visitors coming from outside the market area. The active uses—arts and cultural center, commercial office on the lower floors of the office/residential building for professional office, medical establishments—are a key element of the site. In addition, the plaza/pedestrian pathway improves the streetscape and pedestrian access to the Green Line LRT Prospect Park station and related residential/commercial developments. The three mixed-use buildings support the built form guidelines for building heights of 10 stories and up to 30 stories to take best advantage of the access to the Green Line LRT, jobs, and goods and services. The design supports the guidance for taller buildings to be set back to increase access to light and air. Cars accommodated in underground parking structure support city goals for a more pedestrian/bicycle friendly environment.

Planning Assumptions

| | |
|-----------------------------|------------|
| Arts Center | 50,000 sf |
| Office | 31,000 sf |
| Residential Units for Lease | 200 units |
| Parking | 275 spaces |

Sources and Uses

| | |
|-------------------------|-----------|
| Site Purchase Price | \$9.7 mil |
| Total Development Costs | \$97 mil |
| Equity | \$24 mil |

| | |
|-----------------------------|-----------|
| Total Financing | \$73 mil |
| Yearly Net Operating Income | \$7.8 mil |
| Yearly Cash flow After Debt | \$3 mil |

Arts and Cultural Center Subsidies

| | |
|----------------------------------------------|------------|
| Arts Center Rent Rate per SF per Year | \$34 Gross |
| Average Rent Rate Affordable to Arts Tenants | \$22 Gross |
| Rent Subsidies Needed per Year | \$586k |
| % of Net Operating Income | 7.8% |
| % of Cash flow After Debt | 19% |



Office & Residential

Residential

Arts & Cultural Facilities



3. Retail/Charter School Site 315 27th Avenue SE

This compact site of 1.03 acres currently houses a charter school and several small retail businesses. The existing one-story building will be replaced. The new building will include a lower two-story structure housing the arts and cultural facilities with a 16-story tower rising above. This tower will include 38,400 square feet of offices located on four floors and 160 residential units. Parking for 171 automobiles will be located underground. Although this is the most densely developed project of the concepts presented in this report, it does provide generous open space/entry plazas on both University Avenue SE and SE 4th Street.

In the Minneapolis 2040 Plan, this site is designated for “Community Mixed Use” land uses and “Transit 30” built forms. The mixed-use multi-story redevelopment of the site meets the land uses and built forms encouraged by the City with the active uses on the street level. This includes the arts and cultural center and commercial offices on the lower floors of the office/residential building. Cars accommodated in underground parking structure support city goals for a more pedestrian/bicycle friendly environment.

Planning Assumptions

| | |
|-----------------------------|------------|
| Arts Center | 50,000 sf |
| Office | 38,400 sf |
| Residential Units for Lease | 160 units |
| Parking | 171 spaces |

Sources and Uses

| | |
|-----------------------------|-----------|
| Site Purchase Price | \$4.5 mil |
| Total Development Costs | \$80 mil |
| Equity | \$20 mil |
| Total Financing | \$60 mil |
| Yearly Net Operating Income | \$6.7 mil |
| Yearly Cash flow After Debt | \$3 mil |

Arts and Cultural Center Subsidies

| | |
|----------------------------------------------|------------|
| Arts Center Rent Rate per SF per Year | \$34 Gross |
| Average Rent Rate Affordable to Arts Tenants | \$22 Gross |
| Rent Subsidies Needed per Year | \$600k |
| % of Net Operating Income | 9% |
| % of Cash flow After Debt | 20% |





Office & Residential

Arts & Cultural Facilities



4. Bank/Residential Site 3117, 3121, 3301, 3307, and 3309 University Avenue SE

This site currently includes a bank building and five residential buildings. The development concept calls for the construction of a new stand-alone arts and cultural facility on the corner of University and Malcolm Avenues SE and three new six-story residential buildings. A 170-space underground parking facility will serve all four buildings. The new residential buildings will be consistent with the scale of existing buildings on University Avenue SE and compatible with the homes adjacent to the site on 4th Street SE. The residential buildings will include a number of modestly priced micro units. This concept, with its shared underground parking serving the entire mixed-use site, provides a model for linear development on University Avenue SE utilizing a parcel that is one-half block in width.

In the Minneapolis 2040 Plan, this site is designated as “Corridor Mixed Use” land use location. This linear, half-block deep site presents a challenge for redevelopment in a real estate market that prefers full block sites. The side-by-side arts and cultural center and residential structures meet the land use guidelines for multiple uses and multi-story development. The buildings reflect the “Corridor 4” built form guidance for a variety of building types of one to four stories on both small and moderate-sized lots, including on combined lots. The streetscape improvements associated with the redevelopment support the City’s goal for pedestrian-friendly, transit-oriented development. Cars accommodated in underground parking structure support city goals for a more pedestrian/bicycle friendly environment.

Planning Assumptions

| | |
|-----------------------------|------------|
| Arts and Cultural Center | 50,000 sf |
| Residential Units for Lease | 90 units |
| Parking | 170 spaces |

Sources and Uses

| | |
|-----------------------------|-----------|
| Site Purchase Price | \$5.6 mil |
| Total Development Costs | \$50 mil |
| Equity | \$12 mil |
| Total Financing | \$38 mil |
| Yearly Net Operating Income | \$3.7 mil |
| Yearly Cash flow After Debt | \$1.3 mil |

Arts and Cultural Center Subsidies

| | |
|-------------------------------------------|------------|
| Rent Rate per SF per Year | \$31 Gross |
| Average Subsidized Arts and Cultural Rent | \$22 Gross |
| Rent Subsidies Needed per Year | \$433k |
| % of Net Operating Income | 11.7% |
| % of Cash flow After Debt | 34% |





Concept Summary



1. OFFICE/WAREHOUSE/INDUSTRIAL SITE - USES A LARGE EXISTING BUILDING

504 Malcolm Avenue SE - \$121 MIL TOTAL DEVELOPMENT COSTS

- Arts and cultural facility within a complex that includes office and residential, utilizing and adding to an existing structure
- Potential to provide significant parking for the benefit of the entire district
- Highest cash flow after debt of any of the concepts, allowing for possible subsidy of arts and cultural facilities



2. US POST OFFICE/RESTAURANT SITE - COMBINES TWO SITES

2725 and 2811 University Avenue SE - \$97 MIL TOTAL DEVELOPMENT COSTS

- Arts and cultural facility within a wholly new complex that includes housing and office
- Separate arts and cultural building along with two other stand-alone structures allows each building to have its own identity
- Generous public space in landscaped outdoors courtyard commons area



3. RETAIL/CHARTER SCHOOL SITE - UTILIZES A COMPACT SITE FOR DENSE DEVELOPMENT

315 27th Avenue SE - \$ 80 MIL TOTAL DEVELOPMENT COSTS

- Arts and cultural facility within a wholly new complex that includes housing and office
- High density development on a compact site
- Provides open space on both University Avenue and SE 4th Street



4. BANK/RESIDENTIAL SITE - COMBINES COMMERCIAL PROPERTY WITH FIVE RESIDENTIAL PROPERTIES

3117, 3121, 3301, 3307, and 3309 University Avenue SE - \$50 MIL TOTAL DEVELOPMENT COSTS

- Arts and cultural facility within a wholly new housing development constructed in scale with adjacent neighborhood housing
- Emphasis upon modestly priced housing with the inclusion of micro apartment units
- Provides a model for linear development of a site on University Avenue that is one-half block in width

COVID-19 Impact on Planning For Arts And Cultural Facilities

The project team was in the process of refining and finalizing this report when the COVID-19 pandemic emerged as a factor that will assuredly affect the planning and design of all buildings going forward, especially those specifically designed to be community gathering places.

At this point in the still unfolding pandemic and its unknowable future, it is impossible to predict how this crisis, together with the climate crisis with which it is interwoven, will influence the planning and design of arts and cultural facilities.

Design, in addition to providing shelter and safety, has the obligation to bring pleasure, joy and culture to the community. Our challenge is to determine how we will bring people together yet provide separation and safety at the same time. Technology has allowed us to replace the functions of an office or a studio in our homes, but that does not foster community, spark the creativity that arises from collaboration across disciplines, or generate the energy needed to drive a project or a program forward. With several vaccines for Covid-19 available for wide-spread distribution in the first half of 2021, now is the time for action to include arts and cultural facilities in the next phase of redevelopment in Prospect Park Towerside.

The challenge will be to provide for gathering but, when necessary, ensure the adaptability of spaces by means of partitions that can be reconfigured and facilitate distancing. Buildings will be required to contribute to the health and wellness of their inhabitants by means of HVAC systems that deliver clean, fresh, virus-free air. Buildings will also need to provide ready access to outdoor gathering spaces, be they at grade or on terraces or rooftops, that allow for congregation and as needed distancing for meetings. Planning considerations will include multi-layered entry screening systems to reduce risk, antimicrobial materials and coatings on touchable surfaces, germicidal ultraviolet lighting, lockers for staff, upholstery fabric that can withstand intensive frequent cleaning, hand sanitizer stations, stairways positioned and designed to encourage walking versus taking the elevator, and the generosity of space to accommodate distancing. By means of their overall design, buildings should encourage positive behavior and hygiene. At the same time, it will be important to not overreact to this specific crisis but to double down on what we already know and center project goals on health, wellness, restoration, and protection of the materials and resources we have.

In addition to the complex set of challenges Covid-19 has presented, it has also exposed many long-standing disparities and inequities in our community. This is the time for arts and cultural organizations to come together and demonstrate to the broader community how these challenges can be addressed by means of a program that is equitably imagined to contribute to the safety, health, and well-being of its users and the larger community.

Innovative Approaches to Financing Arts and Cultural Facilities

The analysis in this report is based upon the traditional approach to financing private sector real estate development where the developer provides equity, a mortgage loan is obtained from a private sector lender, and project income is used to pay debt service. This approach has the advantage of being familiar and there are numerous lending institutions in the market today that operate on this model. Beyond the scope of this report is the consideration of a variety of innovative approaches to financing arts and cultural facilities. Land banking, new City of Minneapolis policies to assist arts and cultural organizations, and other alternatives are all possibilities. These approaches may have real advantages in terms of providing subsidies that will ensure the continuing presence of arts and cultural facilities within Prospect Park Towerside. These alternatives are beyond the scope of this report, which is aimed at identifying what can be accomplished today with existing tools and before opportunities in the Prospect Park Towerside are lost to other uses. The following is a brief summary of just some of the concepts that might be considered:

City Policy

The City of Minneapolis has long recognized, celebrated, and calculated the enormous economic value of its creative center. It has also recently determined that the city is in fact slipping in its Creative Vitality Index (CVI) in relation to other cities. If Minneapolis is to retain and grow its standing as a community of creative energy, now is the time for the city to develop and adopt policies designed to assist its arts and cultural organizations by supporting concepts like long-term lease options, public subsidies to arts and cultural organizations, and alternative pro forma models for financing. Failing to do so will mean that these vital organizations—their workers, clients and ideas—will be priced out of those areas of the city where they are most accessible and needed, and where their creative energy would contribute most to the vitality of the city.

Land Bank

The Concept: Philanthropic foundations with a history of supporting arts and cultural organizations would be lobbied to initiate a program and establish a fund that, upon identifying a district where a significant presence of arts and cultural organizations would magnify the vitality of the district, would purchase a site within that district dedicated to that purpose and use forever.

A single arts and cultural organization or a combination of several would then lease the site for 50-plus years and build their facility on the property. Although the combination and nature of organizations that occupy the facility may change over time, the site would be forever dedicated to arts and cultural activities.

Innovative Approaches to Financing Arts and Cultural Facilities, continued

Arts Superfund

The Concept: Develop at the state level a superfund for arts and cultural related projects similar to the Minnesota Legacy Fund to be used for the purpose of acquiring sites within a community for the purpose of creating an arts and cultural hub. This fund will be capitalized by a check-off box, lottery or, if organized as a non-profit, could be capitalized by those contributing to a fundraising program like Give MN. Its purpose would be to provide front-end, low-interest predevelopment loans to arts and cultural organizations working to put together a facilities project that would have difficulty finding affordable financing from conventional sources. The arts superfund would be repaid as the project takes shape and other sources come to the table. Over time, the superfund may be able to classify a portion of the loan as a grant to the project.

Impact Investment Fund

The Concept: Work with arts-oriented investors and foundations to establish a fund dedicated to the support of, not only traditional arts and cultural organizations, but also small companies that create well-designed products and jobs. According to a 2018 New York Times article, “groups like Upstart Co-Lab and LISC in New York are looking to invest in the broadly defined creative economy.... ‘We’re providing an opportunity to invest in arts culture and creativity,’ said the executive director of the New York office of LISC. ‘We’re trying to create a new channel of investment capital that is about benefits for low- and moderate-income people.’” Although this type of investment does not pay a high rate of return, it is evidently attractive to investors who want a safe investment directed to a social good. The New York Times reported that an investor in this type of fund liked the opportunity to collaborate with others who find this “interesting and they’re happy to get on board. There just needs to be someone to do the legwork.”

It is our recommendation that consideration of these and other alternative concepts should be pursued as a follow-up to this report.

Key Take Aways

Arts and cultural organizations are essential for the success of Towerside and other redeveloping urban communities. These organizations thrive in clusters, and Textile Center, which owns its facility on University Avenue in Towerside, endorses this initiative. Textile Center will succeed all the more if Towerside becomes a vibrant arts and cultural destination. If arts and cultural organizations and the assets they provide are to be assured an embedded place in high-density districts with rapidly increasing land values such as Prospect Park Towerside, the City of Minneapolis and other public agencies must develop policies and incentives that will encourage partnerships and motivate the development of these community-enriching facilities.

A stand-alone facility is the traditional model for an arts and cultural center. This model and its pluses and minuses are well known and are not considered in this report. A stand-alone facility is the least complicated in terms of structuring but presents the daunting challenge of raising sufficient up-front capital so that the ongoing costs of financing and operations will be in a manageable range. The stand-alone model does not offer the opportunity to share some facilities with other users or spread the costs of developing parking or other site features, and does not benefit from the activities that other site uses would generate.

The alternative model explored in this report is the development of arts and cultural facilities within a mixed-use project. Although mixed-use projects are more complicated to design and structure than stand-alone arts and cultural centers, they have advantages in terms of the potential for sharing facilities and both up-front and ongoing costs. Furthermore, an arts and cultural center within a large mixed-use project requires less subsidy when considered as a percentage of net operating income or cash flow after debt. Within such a project, the developer may be willing to subsidize an arts and cultural center as an amenity that will add value to the project as a whole.

Additionally, as demonstrated in this report:

- At the present time, there are at least four excellent sites for the development of mixed-use projects incorporating arts and cultural facilities in Prospect Park Towerside. The four development concepts presented here demonstrate the suitability of these sites for a variety of projects.
- Based on the pro forma analysis, all four concepts are within the range of commercial viability, assuming the provision of an appropriate level of subsidy for the arts and cultural facilities.
- With the advent of the COVID-19 pandemic, the design of new arts and cultural facilities must address a broader range of health and safety considerations. This presents both a challenge and an opportunity.
- Land banking, new City of Minneapolis policies, and other alternative financing concepts may help ensure the continuing presence of arts and cultural organizations in Prospect Park Towerside. The development of these concepts into realities will require the commitment of time and resources.
- Time is of the essence. As redevelopment continues within Prospect Park Towerside, prime sites such as the four sites evaluated in this report will become increasingly unavailable.

This report is intended to spark further action. However, as a technical study, the report is limited to the preliminary analysis of physical development concepts and real estate economics. Much more remains to be done in defining the kinds of artistic and cultural programs and facilities that will best promote diversity, equity, and the Towerside vision as a whole. The next steps in this initiative must include a dialogue involving key stakeholders and the broader community, followed by the identification of potential arts and cultural organizations and developers.

Urgent

Prospect Park Towerside has become a high-interest, high-value redevelopment district. The opportunity presented by the sites identified in this report is a fleeting one; any or all of the sites could be optioned or purchased tomorrow for the development of off-the-shelf projects that would not capitalize on the extraordinary cultural assets of the University of Minnesota or build on the collective arts and cultural organizations and resources located along the Green Line.

Action Now

Land and construction never get less expensive. Now is the time to bring our energy to the creative utilization of existing financial tools to seize this available and achievable opportunity. We must capture and capitalize on the enormous, one-of-a-kind assets of this location to benefit the community's art and cultural organizations.

Goal for 2021

The work going forward is to use this report as a tool to attract the interest of specific arts and cultural organizations and, at the same time, identify a developer with the interest, creativity and capacity to pull it together, and make it happen. The goal for 2021 should be to obtain commitments for at least one new arts and cultural project in Prospect Park Towerside.



HERE Minneapolis



Louis Apartments



The Link



Hampton Inn & Suites



The Pillars of Prospect Park



Surly Brewing



Green on 4th

APPENDIX: Reinvestment in Activity in Prospect Park Towerside

Completed Projects

Surly Brewing (520 Malcolm Avenue SE) Opened 2014

- Brewery with restaurant and event spaces on 8.3-acre site.

The Link (2929 University Avenue SE) Opened 2016

- 336 units (150 market rate units, 186 luxury units)
- 40,450 sq ft of commercial space (30,200 sq ft grocery store)

Hampton Inn & Suites (2812 University Avenue SE) Opened 2016

- Five-story, 117 room hotel

Green on 4th (2949 SE 4th Street) Opened 2019

- 243 units (177 market rate units and 66 affordable units)

Louis Apartments (3001 SE 4th Street) Opened 2020

- 70 affordable workforce units (including 34 2-BR units and 18 3-BR units for families)

The Pillars of Prospect Park (3033 University Avenue SE) Opened 2020

- 283 units (133 senior units, 106 assisted living units, and 44 memory care units)
- Retail space
- Daycare space

HERE Minneapolis–Student Living (2813 SE 4th Street) Opened 2020

- 163 micro apartments (105 studios, 39 1-BR units and 19 2-BR units)

APPENDIX: Reinvestment in Activity in Prospect Park Towerside, *continued*

Infrastructure Projects

Green Fourth Street

- The project is a one-half mile long stretch of SE 4th Street, a public right-of-way between Malcolm Ave SE and 25th Ave SE, that features complete street design strategies, placemaking features, transit connections, pedestrian-oriented amenities, and demonstrates sustainable and livable TOD principles realized at a district scale. Opened 2020.

Towerside District Stormwater

- This district system is a sustainable approach by the Mississippi Watershed and Management Organization and four participating private landowners. The system captures and cleans polluted stormwater that drains from a two-block area near the Prospect Park light rail station opened in 2019.
- The stormwater basin also serves as a unique public green space adjacent to Towerside Park Greenspace.
- An expanded District Stormwater and Minneapolis Parks system would manage an estimated 47 million gallons of stormwater runoff from over 21 acres of private land in the Malcolm Yards development. This initial system concept manages a 100-year storm event while simultaneously expanding habitat benefits and reducing heat island effect. It builds a direct connection for residents to engage with water, and transforms stormwater into an asset.



Towerside Park Greenspace

- One-acre park located at the intersection SE 4th Street and 29th Ave SE, including space for Prospect Park Community Garden. Constructed in 2020 by developer and purchased by Minneapolis Park & Recreation Board in accordance with East of the River Park Master Plan adopted by MPRB in March 2019.



Grand Rounds Missing Link/Bridal Veil Regional Trail

- The Minneapolis Park & Recreation Board has, in its updated East of the River Master Plan (2019), a preferred routing for the Missing Link of the Grand Rounds/Bridal Veil Regional Trail proposal.
- The Grand Rounds contain a park-like road, biking and walking trails, and green open spaces. The Missing Link is between St. Anthony Parkway in Northeast Minneapolis and East River Parkway along the Mississippi River in Southeast Minneapolis.
- In the Towerside district, MPRB has developed two memoranda of understanding with developers working on realizing the vision of the mixed-use district. With significant park dedication fees in place and ample community support for new parkland in the emerging district, there are also immediate opportunities for implementation of the regional trail, contingent on master plan approval by MPRB and the Metropolitan Council.

APPENDIX: Reinvestment in Activity in Prospect Park Towerside, continued

Projects Under Construction/Planning Approved

1. Home2 Suites – Prospect Park Properties (2800 University Avenue SE)
 - 112-room extended-stay hotel
2. The Wallis Prospect Park – Vermilion (3350 University Avenue SE)
 - 256 apartment units
 - 27,500 sqft commercial space
3. Malcolm Yards – Wall Development Company (445 Malcolm Avenue SE)
 - 16,000 sqft food hall
 - 344 units (180 market rate apartments, 164 affordable apartments)
 - 7,900 sqft commercial space
4. O’Shaughnessy Distillery (600 Malcolm Avenue SE)
 - 27,000 sqft distillery, office and tasting/event space



1.



2.



3.



4.

