



DOWNTOWN MINNEAPOLIS TRANSFORMATION

Research, Analysis, Recommendations

SEPTEMBER 2024



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INTRODUCTION

Downtown Minneapolis is undergoing transformation. The changes currently taking place in downtown Minneapolis are not unique to this city alone; similar transformations are unfolding in downtown Saint Paul, downtown Duluth, and in cities across the United States. These shifts are largely driven by significant changes in the nature of work and the utilization of office spaces, which are resulting in a nationwide plateau in office occupancy.

Despite these changes, downtown areas including Minneapolis continue to play an essential role. Their locations, robust transportation infrastructure, arts and cultural significance, and other key factors continue to position them as central hubs of metropolitan areas. However, to unlock the next era of potential for downtown Minneapolis, dislocation and transition is inevitable as the market and the community redefine downtown and its widening range of activity. This exercise holds promise that downtown Minneapolis is becoming more vibrant, productive, inclusive, and memorable than ever before.

In urban areas, especially in downtowns, public and private investments and interests are closely linked and mutually dependent. As community priorities and market conditions in U.S. cities evolve, the public has a crucial role in facilitating downtown transformation.

MINNEAPOLIS' UNIQUE NEED

DOWNTOWN MINNEAPOLIS
Structures Built 1970 or Later

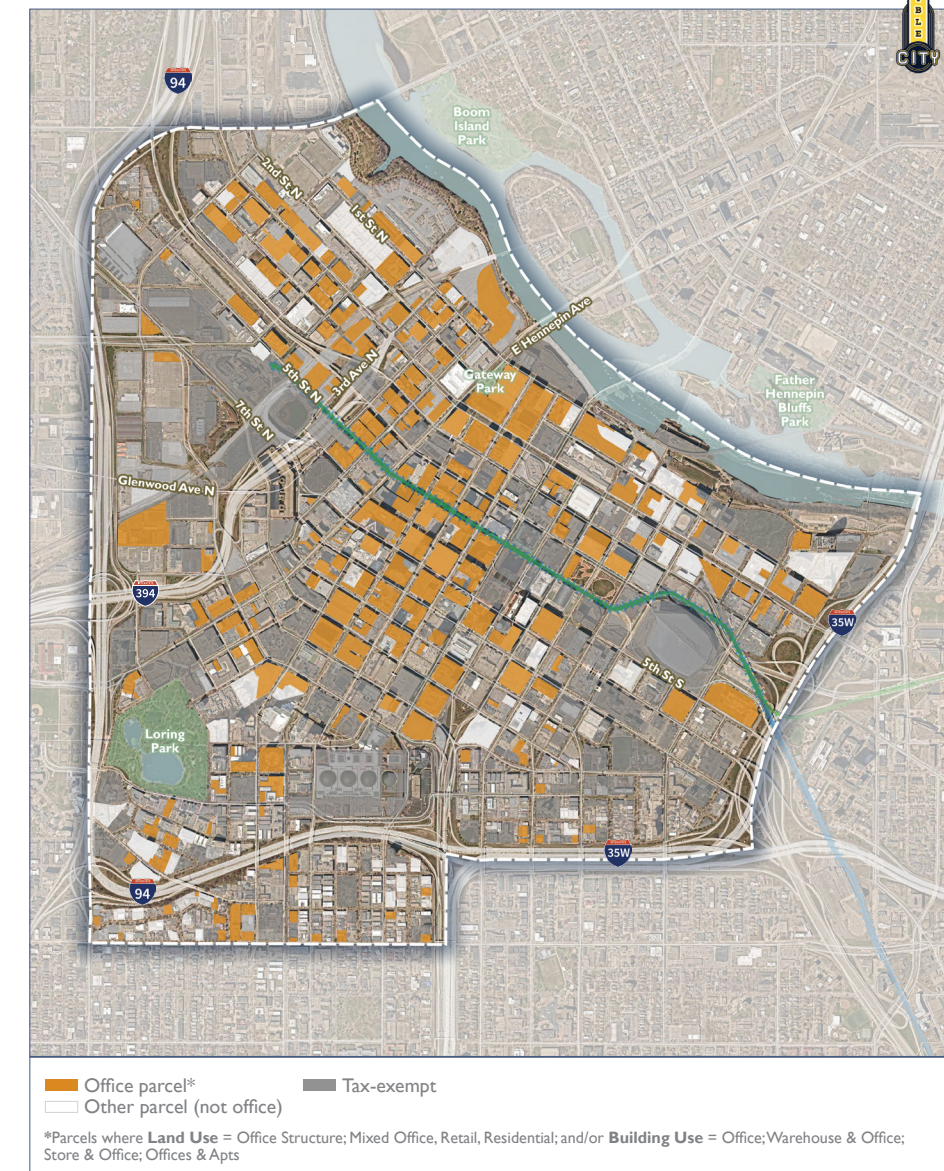


Spatial data sources: Hennepin County, City of Minneapolis, OpenStreetMap

Downtown Minneapolis stands as the most concentrated center of economic activity in Minnesota, playing a pivotal role in the state's economy. Since the 1970s, the city has undergone significant redevelopment, driven by a highly prescriptive plan and policy focused on the office core and the construction of office buildings. This strategy, executed over decades with precision, effectively supported a bustling workforce that grew to over 215,000 downtown workers before the pandemic. As a result, downtown makes an essential contribution to the city's financial health: In 2023, properties in the downtown area accounted for 30% of the total property taxes paid citywide.

However, many downtown office buildings are today a fraction as busy—and valuable—as they were before the pandemic. Many newer office buildings, due to their design characteristics such as large, deep floor plates with limited access to exterior windows, offer limited potential for conversion to other uses including residential. This presents a unique challenge, as the structures of downtown Minneapolis (along with other downtown assets such as transit access) are equipped to support the state's largest concentration of office employment. Making use of these structures and locations, in ways that reflect an evolving market beyond office, is of critical importance for city residents, the broader metropolitan area, and the state as a whole.

DOWNTOWN MINNEAPOLIS
Office Properties, 2023

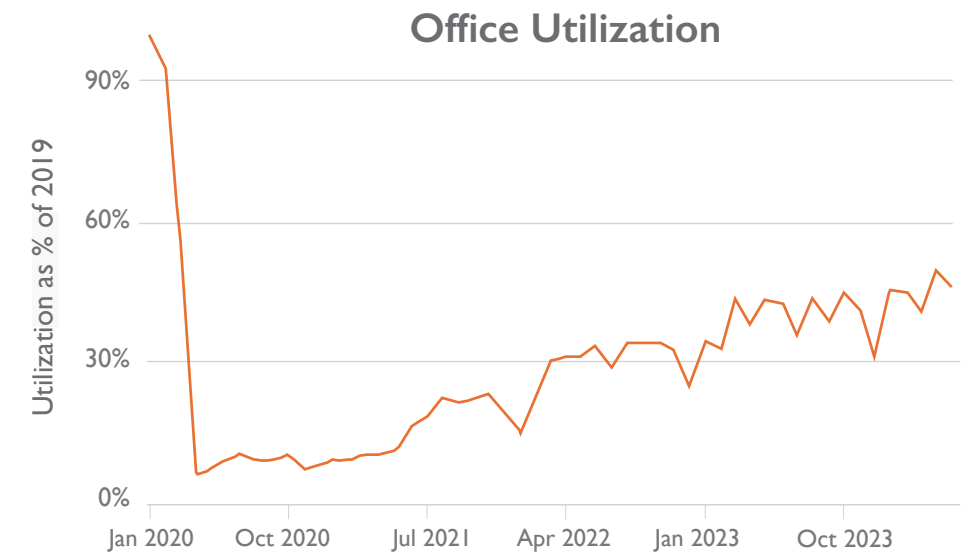


WHAT'S NEXT

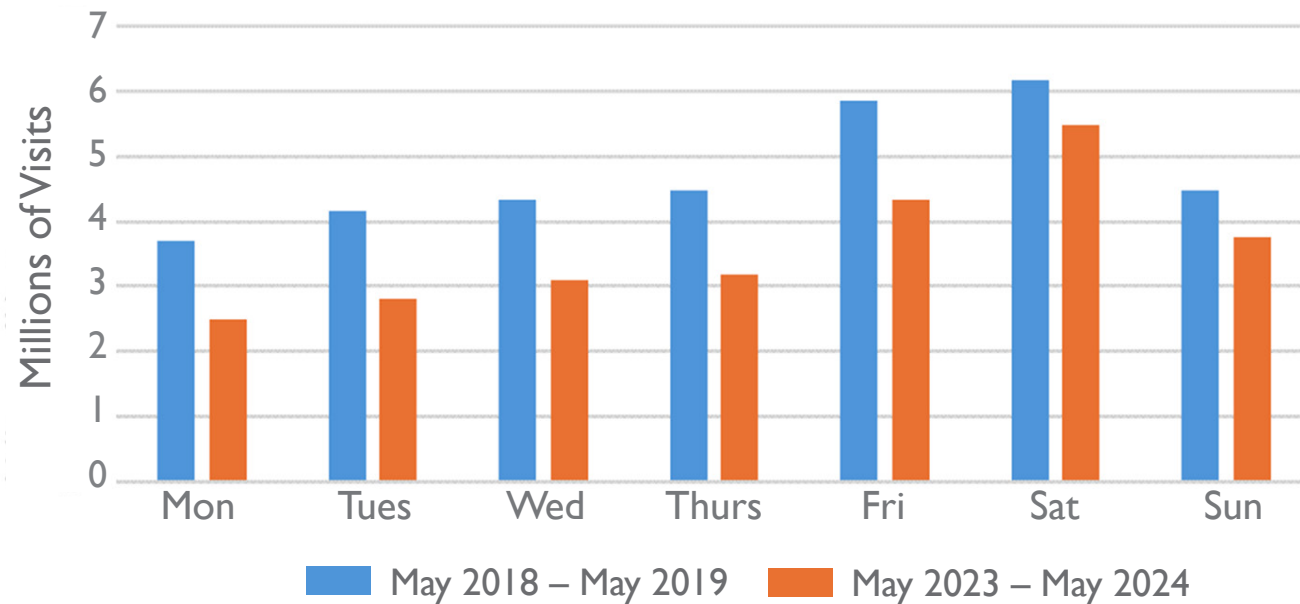
In recent years, both locally and nationally, office utilization (current worker activity, defined as a proportion of 2019 numbers) has plateaued. In part due to the relatively common use of remote work in key local industries such as finance and insurance, manufacturing, professional services and public administration, Minneapolis has lagged behind other major cities in terms of utilization rates.

While fewer workers are in downtown Minneapolis each weekday, the city exhibits strong signs of recovery in foot traffic, including during evenings and weekends.

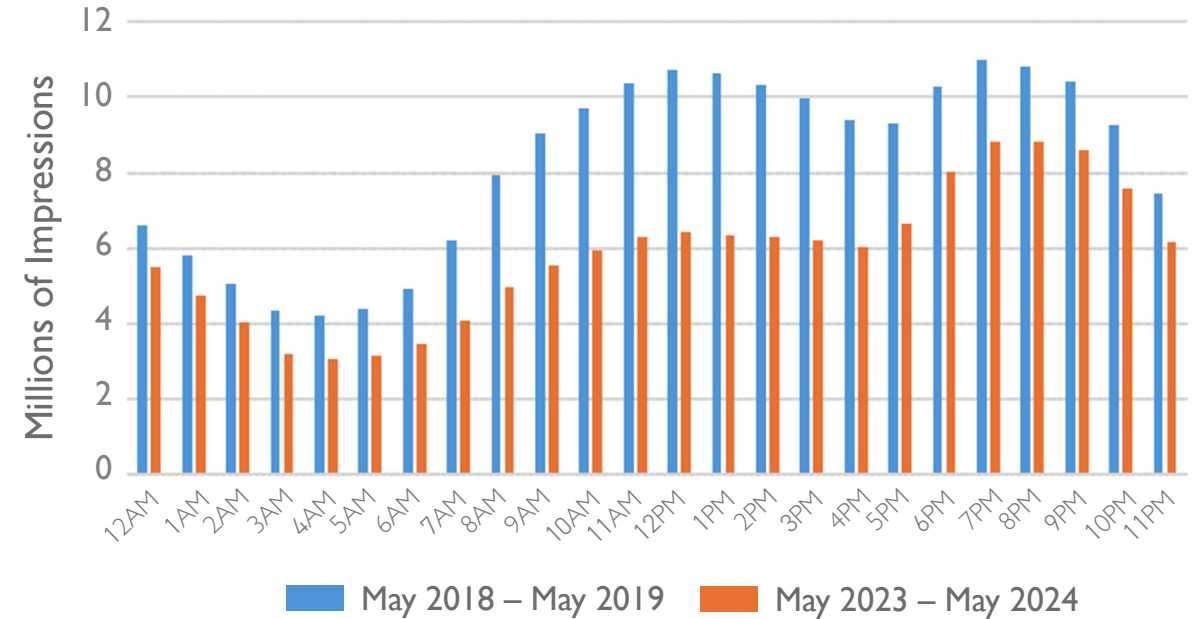
Graphs source: Placer.ai



Downtown Foot Traffic by Day of Week

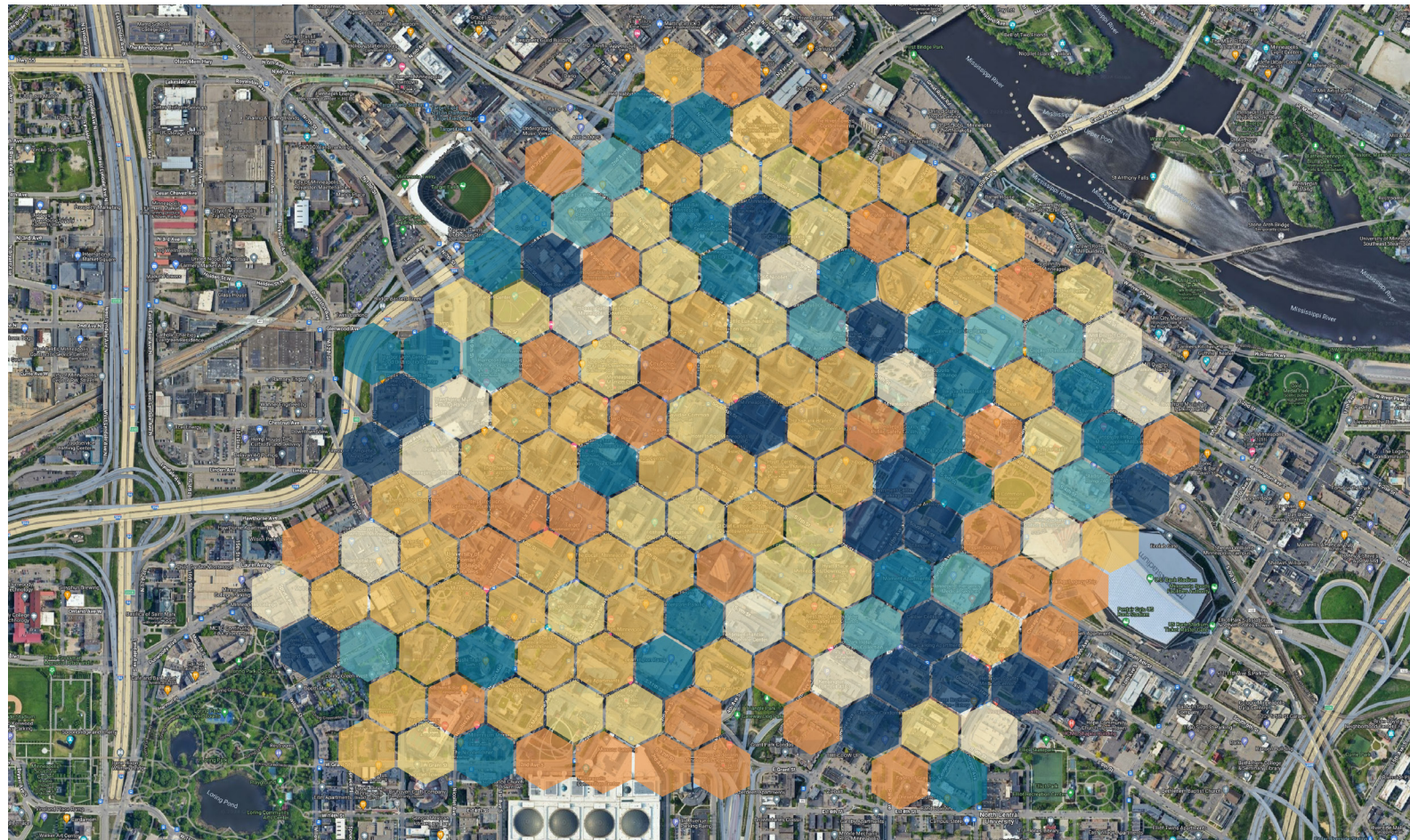


Downtown Foot Traffic by Hour of Day



WHAT'S NEXT

DOWNTOWN MINNEAPOLIS Change in visitor foot traffic, 2019–2023



Foot traffic change, 2019–2023 → ■ More than -40% ■ -40% – -25% ■ -25% – -10% ■ -10% – 0% ■ 0% – 10% ■ 10% – 50% ■ More than 50%

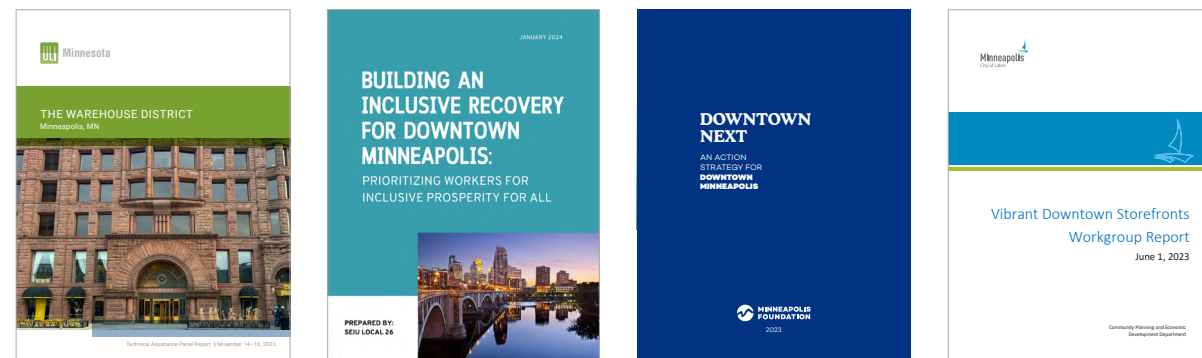
Data sources: Placer.ai, Google Maps

Activity levels across downtown Minneapolis now vary significantly depending on the area. Workers, residents, and visitors will notice differences in the level of foot traffic among different parts of downtown. Each area (Downtown West, Loring Park, Elliot Park, Downtown East) comprises a different combination of spaces for different uses, diversity of building stock, proximity to the Mississippi River and downtown parks, and density of local retail. Investment and initiatives by both public and private sector parties will distinguish how each area meets community needs in unique ways, and how each is part of a downtown-wide transition in the years to come.

BUILDING THE STRATEGY: PRIOR CITY WORK

To unlock the full potential of downtown Minneapolis and its neighborhoods, the City is implementing strategic policies and investments aimed at making the area more active, productive, inclusive, and memorable than ever before. In response to the challenges facing downtown, the City has expedited processes and forged collaborations with various partners to develop and execute strategies for its transformation.

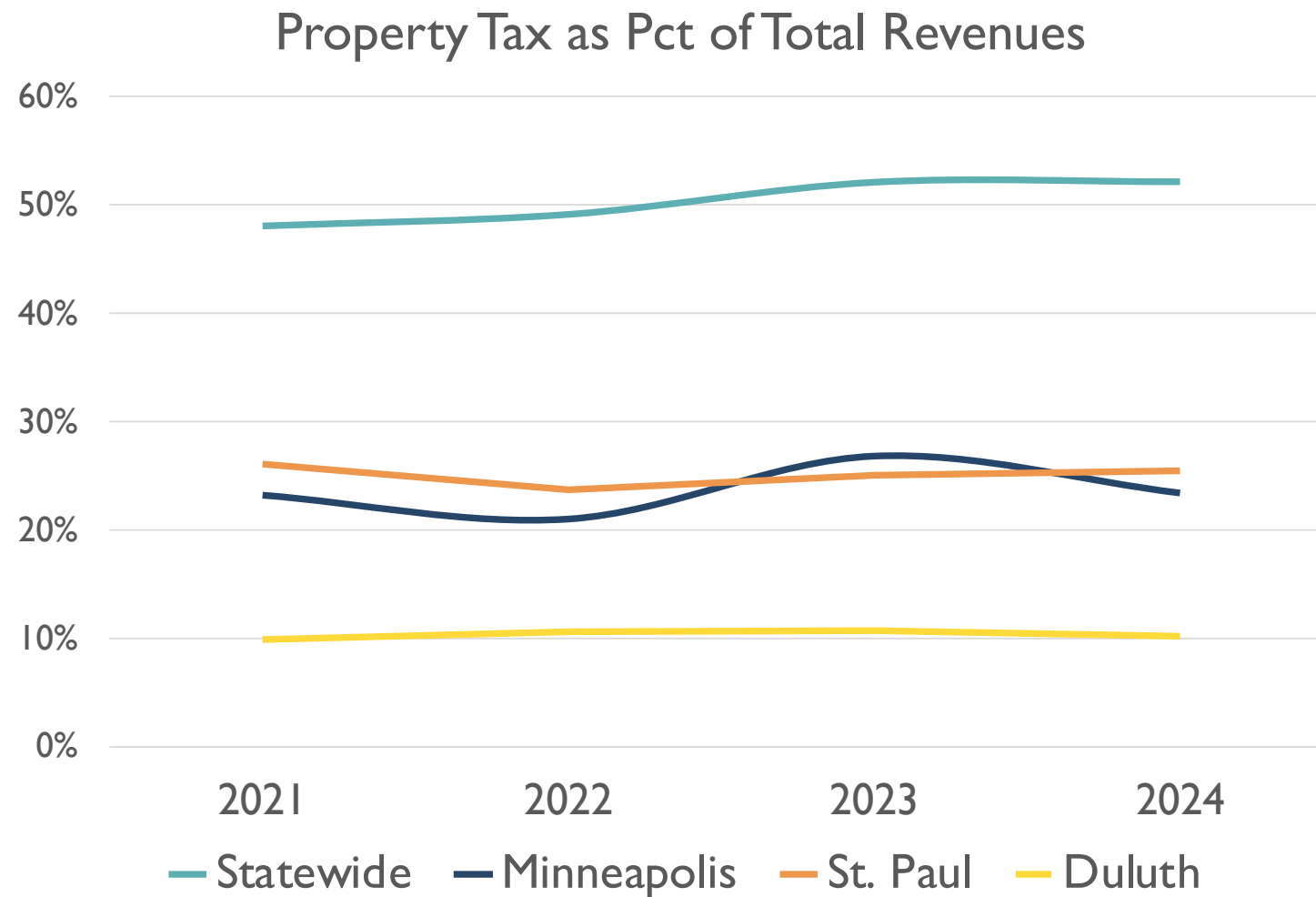
The City of Minneapolis is actively participating in key initiatives such as the Minneapolis Foundation's Downtown Next effort and the Urban Land Institute's studies, along with supporting the Minneapolis Downtown Council's initiatives, including the Vibrant Storefront work. These collaborations continue to be influential in shaping the future of downtown.



Recent Downtown Reports

Moreover, the City is advancing a range of regulatory, policy, funding, and other approaches to seize the opportunities that a more diverse and multifunctional downtown presents. Recognizing that this transformation requires more than just local efforts, City leaders are also advocating for state leaders to contribute funding and policy reforms. These contributions are essential to unlocking downtown reuse and supporting the central role that Minneapolis plays in Minnesota's economy and tax base.

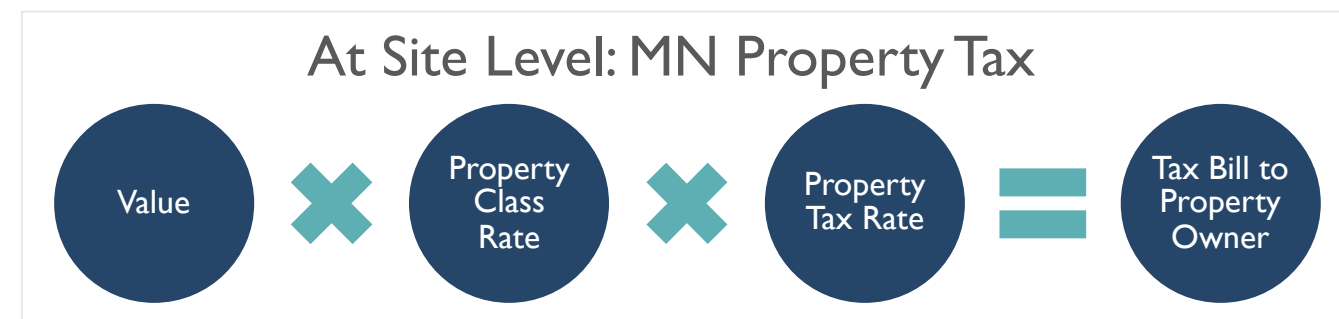
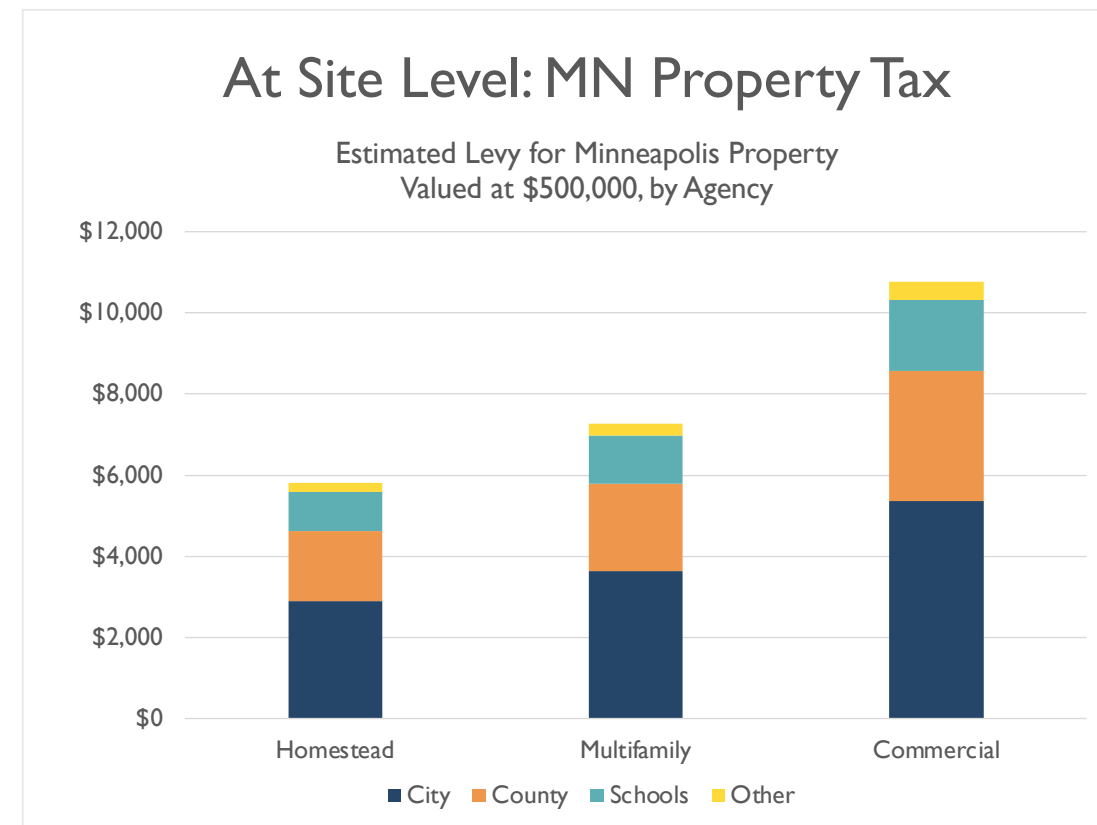
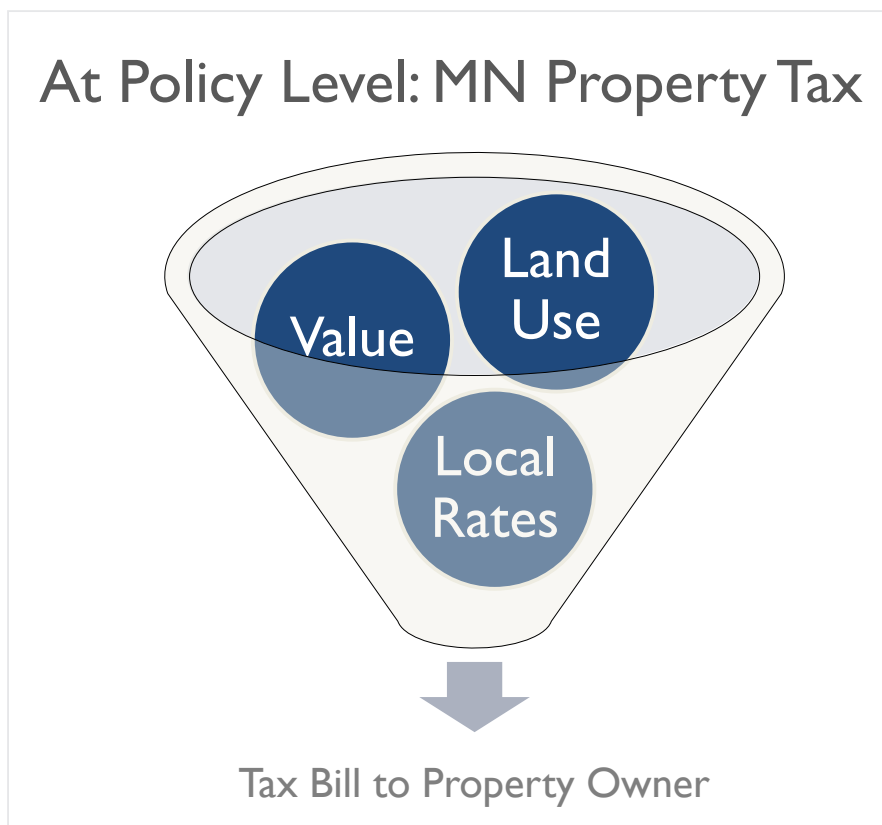
PUBLIC FINANCE IMPLICATIONS: DOWNTOWN MINNEAPOLIS AND THE PROPERTY TAX SYSTEM



In Minnesota, property tax is a fundamental component of cities' capital and operating budgets, playing a crucial role in funding essential services. For Minneapolis, property tax revenue is vital, comprising approximately 23% of the city's total revenues. The property tax system is also inherently regressive, disproportionately affecting lower-income neighborhoods.

The decline in office values, driven by reduced utilization, is projected to result in a significant decrease in downtown property values, estimated at 30-40% over the next few years. This downturn will shift property tax burden to other parts of the city's tax base, likely leading to increased property taxes for residential and commercial properties outside of downtown. Furthermore, there is a realistic possibility that downtown property values will fall more than 30-40%, exacerbating this impact and placing additional financial strain on other city neighborhoods.

PUBLIC FINANCE IMPLICATIONS: DOWNTOWN MINNEAPOLIS AND THE PROPERTY TAX SYSTEM



INSIGHTS FROM COMPARABLE CITIES

Minnesota's larger cities, including Minneapolis, are not alone in navigating the complexities of downtown transformation. Cities across the United States and around the world are grappling with similar challenges as they adapt to changing economic and social dynamics.

To better understand how Minneapolis can approach its own downtown transformation, a comparison was made with other U.S. and Canadian cities such as Boston, Calgary, Chicago, Cleveland, Denver, Los Angeles, San Francisco, and Seattle. Like Minneapolis, these cities have implemented a range of strategies to revitalize their downtown areas. Common approaches include:

1. Process simplification to make development more straightforward;
2. Density bonuses to encourage higher-density developments;
3. Value capture mechanisms, such as Tax Increment Financing (TIF), to fund improvements; and
4. Direct subsidies for property conversion and development to incentivize transformation.



Boston (*Business Journal*), Calgary (*Costar*), Chicago (*Marcus & Millichap*), Cleveland (*NEOTrans*), Denver (*5280 Magazine*), Los Angeles (*Costar*), San Francisco (*Pius Lee*), Seattle (*Visible City*)

The experiences of these cities provide valuable insights for Minneapolis. A key takeaway is the importance of a targeted approach to downtown redevelopment, emphasizing flexibility in property use and adaptability to market conditions. By learning from these strategies, Minneapolis can better position itself to successfully navigate its own downtown transformation.

RECOMMENDATIONS FOR MINNEAPOLIS

Minneapolis is actively engaged in local initiatives aimed at supporting and expediting the transition from an office-centric downtown to one that accommodates a broader range of uses throughout the day and week. This effort is focused on creating a more dynamic and diverse urban environment, with emphasis on two key strategic areas:

Development and Equity Strategy: A key aspect of this transformation is prioritizing racial equity and inclusion in downtown redevelopment efforts. The city aims to focus on specific areas, such as the Warehouse District, to maximize the impact of redevelopment projects. To accelerate these transformations, Minneapolis is also working to streamline permitting and approval processes, making it easier for developments to move forward quickly.

Funding and Legislative Strategy: As the state's largest city, Minneapolis recognizes the need for changes in state law to expand the toolkit available for downtown redevelopment. This includes pursuing legislative changes to unlock additional funding mechanisms. One of the key proposals is advocating for programs like the Conversion of Underutilized Buildings (CUB) Tax Credit, which could provide critical support for repurposing underused properties. Additionally, there is consideration of allocating extra sales tax revenues to further bolster downtown transition initiatives, ensuring the city has the resources necessary to drive this transformation effectively.



Philip Larson

MOVING FORWARD

The transition of downtown Minneapolis is vital not only for the health of the downtown area itself but also for the broader city, the surrounding region, and the entire state. As downtown office values decline, it is crucial to implement a coordinated response to distribute the tax impact of downtown transition, and encourage and guide new investments that can power that transition.

While the City has already begun implementing several strategic initiatives to address these challenges, the evolving nature of downtown transformation will require ongoing adjustments and the introduction of additional measures. These efforts will be essential to ensure a successful and sustainable transition for downtown Minneapolis.



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