

## TECHNICAL MEMORANDUM

TO: Stantec  
FROM: Sarah Woodworth, W-ZHA  
RE: Redevelopment Concept Economic Feasibility and Factors to Consider  
DATE: July 6, 2020

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### INTRODUCTION

Stantec developed two redevelopment concept plans for the Lyndale Study Area to demonstrate how mixed-use, higher density development could be achieved on the Lyndale corridor. One plan envisions the redevelopment of the Clover Center and the Wells Fargo properties at the corner of West 98<sup>th</sup> Street and Lyndale Avenue South, across from the planned Bus Rapid Transit station. The other plan envisions redevelopment on a five-parcel assemblage on the southwest corner of the 86<sup>th</sup> Street and Lyndale Avenue South intersection.

For each location, Stantec developed two concept plans. One concept plan applies the City's existing parking regulations and the other applies market-based parking requirements. Under the City's parking requirements an average of 1.92 parking spaces were required per apartment unit. Under the market-based scenario, 1.3 parking spaces were required per unit. For retail and service, under the City's regulation scenario, 5.1 parking spaces were required per 1,000 square feet and under the market-based scenario 3.0 parking spaces were required per 1,000 square feet. The market-based scenario assumes shared parking.

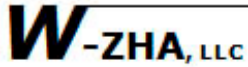
The purpose of this Technical Memorandum is to test the economic feasibility of each redevelopment concept. The level of gap funding necessary to attract private investment is quantified for each redevelopment concept. This economic analysis highlights key factors impacting redevelopment feasibility.

### REDEVELOPMENT CONCEPTS AND FEASIBILITY

#### **Assumptions**

Each concept plan assumes stick construction because Bloomington's residential market rents are not high enough to support steel construction. The concept plans assume surface parking and one level of underground parking.

Land acquisition cost is assumed to be the 2020 market value of the property as determined by the Hennepin County Assessor's office. Where significant parcel assembly is required a land purchase price premium is applied.



**Table 1**

**Development Cost Assumptions  
Concept Plan Feasibility Lyndale Avenue Suburban Retrofit**

<b>Cost Item</b>	<b>Stick Construction</b>		<b>Townhouse</b>
Demolition Cost	\$5.00	/SF Existing Bldg	same
Hard Cost <sup>/1</sup>	\$135	/Gross Sq Ft	\$192,125 /Unit
Soft Cost	20%	of Hard Cost	same
Retail Tenant Improvement	\$75.00	Sq Ft	na
Surface Parking	\$2,500	/Space	na
1-Level Underground Parking	\$25,000	/Space	na

1. Includes furniture, fixtures and equipment.

Source: Marshall & Swift, *CoreLogic*; W-ZHA

Building construction cost assumptions are based on Marshall & Swift cost estimation software, CoreLogic, for Bloomington, MN. Demolition costs, soft costs and parking costs are based on developer interviews and national experience.

**Table 2**

**Revenue Assumptions  
Concept Plan Feasibility Lyndale Avenue Suburban Retrofit**

Multi-Family Residential Market	\$1,521	/Mo	\$1.98 /Sq Ft /Mo
Multi-Family Residential Affordable <sup>/1</sup>	\$1,026	/Mo	\$1.34 /Sq Ft /Mo
Retail/Service/Restaurant	\$20	/NNN Yr	\$1.67 /Sq Ft /Mo
Townhouse Sale Price Market	\$312,000		
Townhouse Sale Price Affordable <sup>/1</sup>	\$199,500		

1. The City of Bloomington requires that newly constructed projects of 20 units or more are to provide 9% of the total units affordable to households earning 60% of the area median income.

Source: Metropolitan Council, "2019 Ownership and Rent Affordability Limits"; Bloomington HRA, "Utility Allowances 10/1/2019"; W-ZHA

Residential and retail rent assumptions and townhouse prices are derived from the market analyses conducted as part of the Lyndale Avenue Suburban Retrofit planning process. Operating assumptions are based on national experience as are the investment thresholds necessary for project feasibility.



All scenarios assume that 9% of the total units are affordable to households earning 60% of the area median income. By including the affordable housing units, the City allows a 10% to 20% parking reduction depending on the site's location. The appropriate parking reduction is applied to each site's concept plans.

To determine feasibility from a private investor's perspective, a discounted cash flow model was developed. The model assumed that the investor would hold the project for 10 years and then sell or refinance. If the project generated an internal rate of return on equity of approximately 14 percent over this period, it was considered feasible. Feasibility was also tested on a cash-on-cash basis and an equity multiplier basis. Standard investment thresholds were applied.

If the scenario tested did not satisfy minimum private investment thresholds, the gap funding necessary to make the project feasible was quantified.

### **86<sup>th</sup> Street Redevelopment**

#### Concept and Development Program

**Figure 1**

#### **86<sup>th</sup> Street Redevelopment Concept Plan**



Source: Stantec

The 86<sup>th</sup> Street Concept Plan envisions a 4-story, mixed-use building and 16 townhome units. The Concept requires that five separately owned properties be assembled to create the 4-acre site.



**Table 3**

**Development Programs  
86th Street Redevelopment Concept**

Mixed-Use Project	City Parking Scenario		Market Parking Scenario	
	Sq Ft	Units/Sp	Sq Ft	Units/Sp
Residential				
Market Rate	164,141	174	172,354	186
Affordable	15,906	17	16,989	18
Retail	15,000		15,000	
Sub-Total	195,047	191	204,343	204
Surface Parking		112		112
1-Level Underground Parking		287		167
Sub-Total		399		279
<b>Townhouses (Self Parked)</b>				
Market Rate	21,600	15	21,600	15
Affordable	1,440	1	1,440	1
Sub-Total	23,040	16	23,040	16

Source: Stantec; W-ZHA

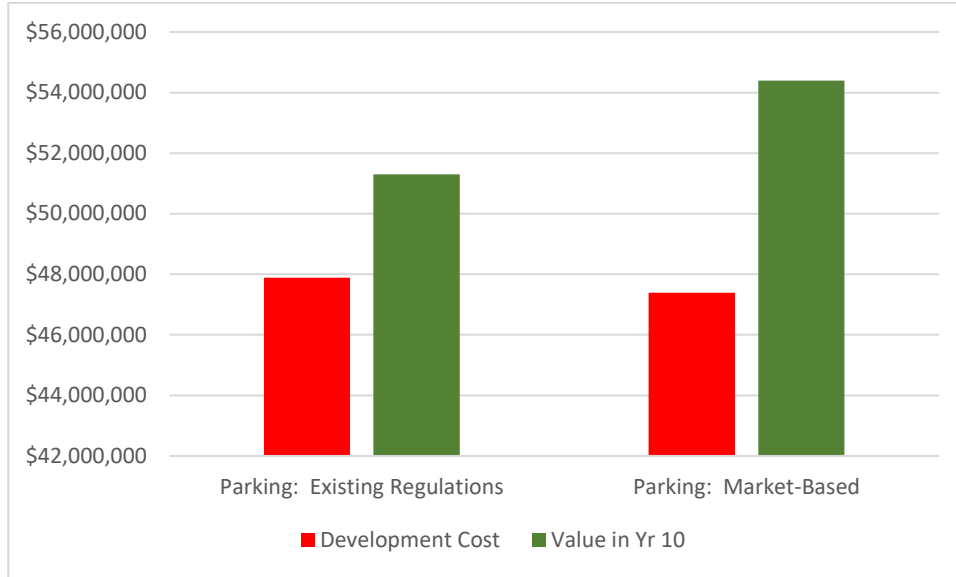
Under existing zoning, the mixed-use project would consist of 191 multi-family units and 15,000 square feet of retail, service and/or restaurant space. Almost 400 parking spaces would be required forcing 72% of the parking underground. Assuming market-based parking, the parking supply would be reduced by 120 spaces which, in turn, allows more building density.

Economic Feasibility

Assuming that 50% of the townhomes are pre-sold at 50% down and a two-year absorption period, the townhouse project is financially feasible. This assumes that 9% of the townhome units are affordably priced for households earning 60% AMI.

**Figure 2**

**Development Cost and Project Capitalized Value in Year 10**

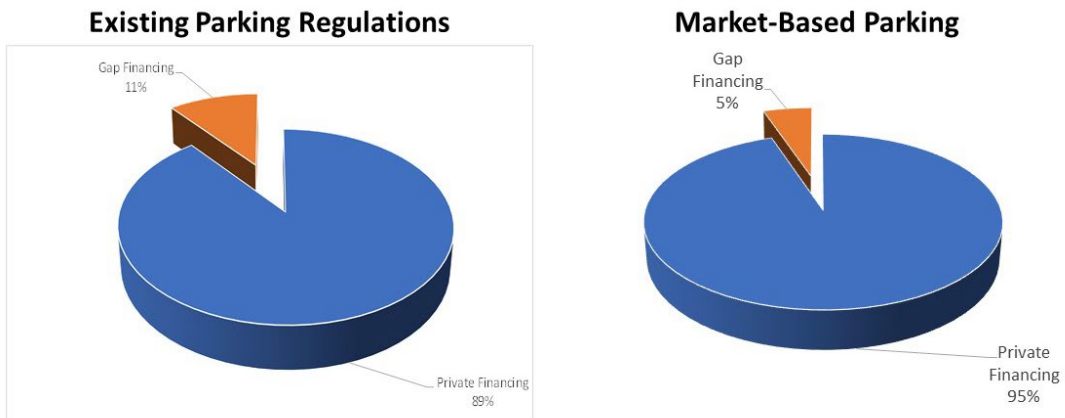


Source: W-ZHA

The cost to develop the mixed-use portion of the 86<sup>th</sup> Concept Plan is approximately \$48.7 million or \$255,200 per unit assuming existing parking regulations are satisfied. Under the scenario with a reduction in the parking requirements, more units can be developed and, at the same time, the cost to develop the project decreases slightly. The graph above demonstrates how the project’s value is enhanced with a market-based parking approach.

**Figure 3**

**Gap Funding as a Share of Total Project Cost**



Source: W-ZHA



Gap funding is required to implement the 86<sup>th</sup> Street Concept Plan. Under the scenario where the multi-family project is parked consistent with existing parking regulations, the project requires approximately \$6.6 million in gap funding or \$34,500 per unit. To implement this scenario would require that 74% of the tax increment generated from redevelopment be invested into the project.

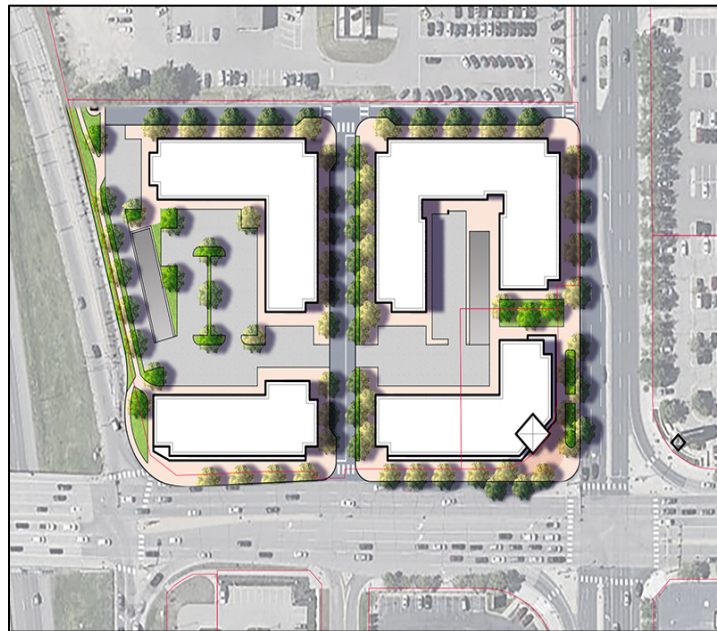
Under the scenario with reduced parking, the 86<sup>th</sup> Street redevelopment project would require \$2.6 million in gap funding or \$12,745 per unit. To implement this scenario would require that 29% of the tax increment generated from redevelopment be invested into the project.

### **98<sup>th</sup> Street Redevelopment Concept**

#### Concept Plan and Development Program

**Figure 4**

#### **86<sup>th</sup> Street Redevelopment Concept Plan**



Source: Stantec

Under existing zoning, the 98<sup>th</sup> Street Concept Plan envisions 2 one-story buildings facing 98<sup>th</sup> Street and two four-story buildings on the northern portion of the site. With market-based parking requirements, all four of the buildings are four stories. The four story buildings are assumed to be stick-built.

The 98<sup>th</sup> Street Concept Plan assumes that a north-south road is constructed in the middle of the site. This road will be extended to the north if and when the car dealership is redeveloped. This road will help to establish a more robust road grid in the future.

**Table 4**



**Development Programs  
98th Street Redevelopment Concept**

Mixed-Use Project	City Parking Scenario		Market Parking Scenario	
	Sq Ft	Units/Sp	Sq Ft	Units/Sp
Residential				
Market Rate	167,663	175	237,372	249
Affordable	15,730	17	23,133	25
Retail	47,900		44,500	
Sub-Total	231,293	192	305,005	274
Surface Parking		117		117
1-Level Underground Parking		373		373
Sub-Total*		490		490
<b>Townhouses (Self Parked)</b>				
Market Rate	0	0	0	0
Affordable	0	0	0	0
Sub-Total	0	0	0	0

\* A 20% parking reduction is taken as per the Housing Opportunity and Preservation incentive.

Source: Stantec; W-ZHA

Under existing zoning, the project would consist of 192 multi-family units and 47,900 square feet of retail, service and/or restaurant space. Four hundred and ninety (490) parking spaces are required under existing regulations. The 490 parking spaces are net of the 20% parking deduction allowed under the City’s Housing Opportunity legislation.

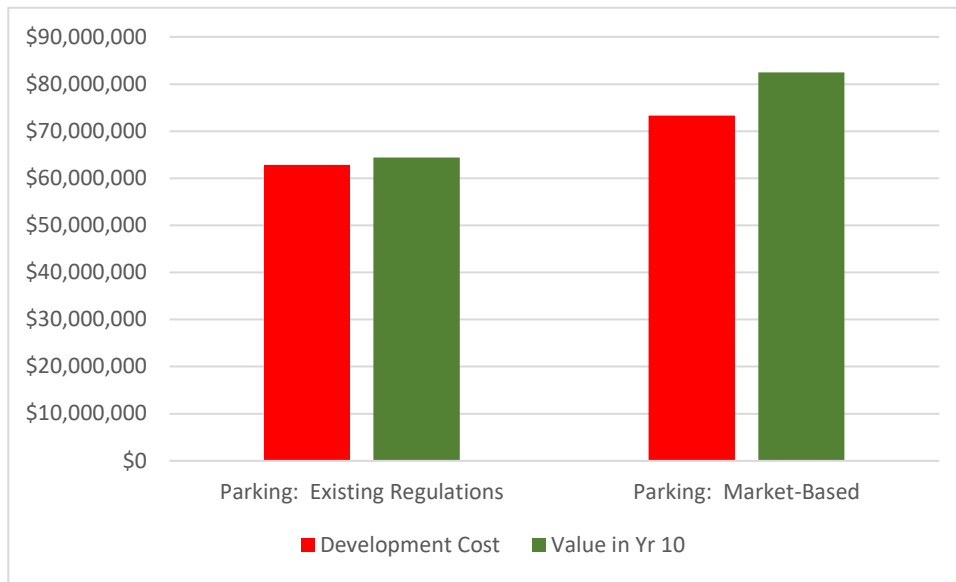
Under the scenario where the project is parked to satisfy market demand, 32% more development can occur on the site. In this case, 274 units are supportable on the site.



Economic Feasibility

**Figure 5**

**Development Cost and Project Capitalized Value in Year 10  
98<sup>th</sup> Street Concept Plan**



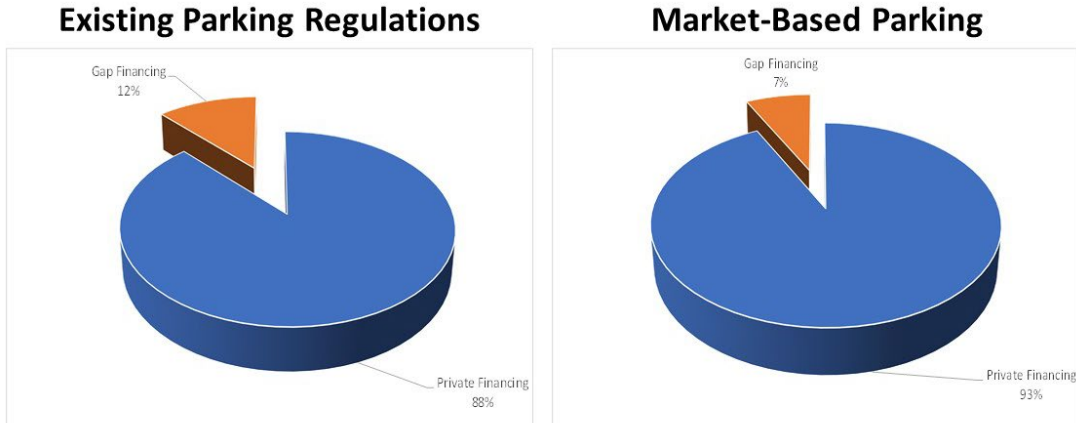
Source: W-ZHA

The total cost to develop the 98<sup>th</sup> Concept Plan with existing parking regulations is approximately \$62.8 million. Under the scenario with a reduction in the parking requirements, the project is larger with a development cost of \$73.3 million. The graph above demonstrates how the project's value is enhanced with a market-based parking approach.



**Figure 6**

**Gap Funding as a Share of Total Project Cost**



Source: W-ZHA

Gap funding is required to implement the 98<sup>th</sup> Street Concept Plan. Under the scenario where the multi-family project is parked consistent with existing parking regulations the project requires approximately \$9.8 million in gap funding or \$50,800 per unit. There is not sufficient tax increment from the project to fund this level of subsidy. Tax increment financing and other grants would need to be committed to make this scenario feasible.

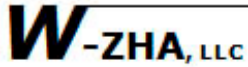
Under the scenario with reduced parking, the 98<sup>th</sup> Street redevelopment project would require \$5.4 million in gap funding or \$19,800 per unit. To implement this scenario would require that 47% of the tax increment generated from redevelopment be reinvested into the project.

The 98<sup>th</sup> Street Concept Plan is more challenging because this redevelopment parcel's acquisition cost is high and the bi-secting road is expensive. The road, however, is an important and valuable community amenity as it will allow a road grid to be developed over time.

**ECONOMIC FACTORS**

**Property Values**

The Lyndale Study Area is a successful commercial corridor. As such, property values are high for parcels located on Lyndale Avenue. High property acquisition costs impact a redevelopment project's development program and feasibility. In mixed use development, higher land cost typically result in higher density redevelopment.



**Table 5**

<b>Recent Commercial Property Sales Lyndale Avenue Study Area</b>				
<b>Address</b>	<b>Sale Date</b>	<b>Land Area (Acres)</b>	<b>Price</b>	<b>Price /Ac</b>
8901 Lyndale Ave S	Aug-19	48,730	\$2,200,000	\$1,966,591
9030 Lyndale Ave S	Jan-19	97,982	\$3,000,000	\$1,333,714
9051 Lyndale Ave S	Aug-19	104,464	\$1,750,000	\$729,725
9200 Lyndale Ave S	Mar-19	33,230	\$2,415,000	\$3,165,736
9320 Lyndale Ave S*	Aug-19	76,438	\$1,250,000	\$712,342
<i>Average Excluding High and Low Prices</i>				<i>\$1,343,000</i>

1. This property was sold by the City of Bloomington for affordable housing development. Likely a discounted price.

Source: Hennepin County Interactive Map, Recently Sold; W-ZHA

Data from Hennepin County tax records indicates that it is not unusual for properties to sell for over a \$1 million per acre on Lyndale Avenue South. Table 5 shows 2019 sales of properties on Lyndale Avenue and within the Study Area. All these sales were properties with improvements on them. W-ZHA removed the highest and the lowest sale price per acre and averaged the other three sales. The average price was \$1.34 million per acre.

**Land Assembly Price Premiums**

The 86<sup>th</sup> Street Concept requires that five separate parcels with five different owners be assembled. Typically, land assembly adds time, risk and cost to a project. In the economic analysis, the assessed value of the 86<sup>th</sup> Street assemblage was increased by 25% to reflect the premiums typically paid when multiple parcels need to be assembled to implement a project.

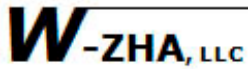
**Rents, Construction Type, and Cost**

**Table 6**

<b>Construction Cost and Height Bloomington, MN</b>			
<b>Structure Height</b>	<b>4-Story</b>	<b>5-Story</b>	<b>8-Story</b>
<b>Construction Type</b>	Stick	Stick w/ Podium	Structural Steel
<b>Construction Cost /Sq Ft</b>	\$129.38	\$140.19	\$201.54

Source: Marshall & Swift, CoreLogic ; W-ZHA

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When land costs are high, it makes sense to put as much density as possible on a site. The ability to increase density is calibrated, however, by construction costs and supportable market rents. Wood construction, or “stick” construction, is the least expensive vertical mixed-use construction method. Stick construction is limited by height. Buildings over five or six stories are constructed of steel. Steel is more expensive.

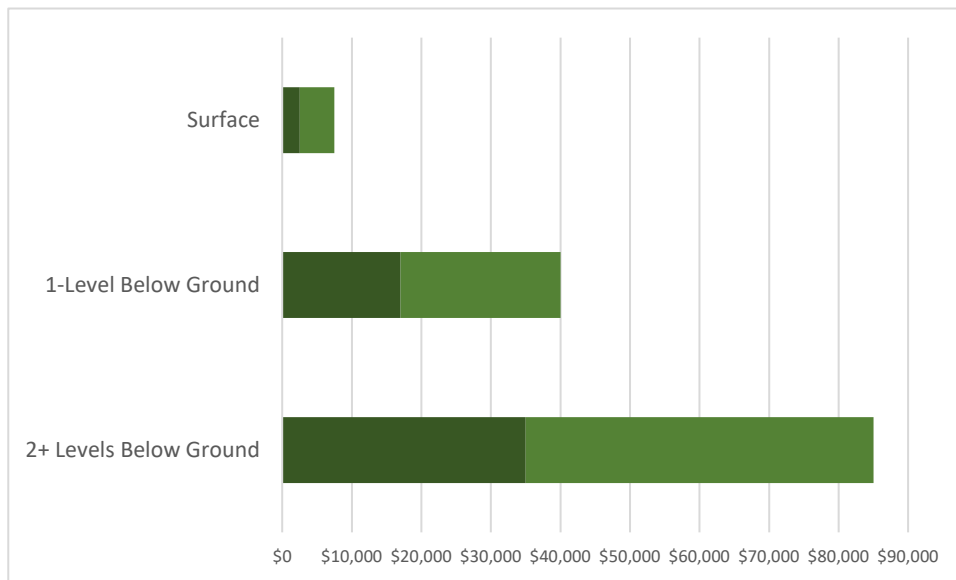
According to the Zimmerman/Volk Associates residential market analysis, the Lyndale Avenue residential market can support an average rent of \$1.98 per square feet per month. This rent level is not high enough to support the costs associated with structural steel construction. Typically, rents need to be well above \$2.00 per square foot to support steel construction.

### Parking Cost

In Bloomington, apartment projects typically offer a free parking space per bedroom. This means that most of the parking cost in a project must be covered by rental revenues. As such, parking is a drag on project economics – the developer does not make money on it.

**Figure 7**

**Parking Cost Range by Type**



Source: W-ZHA

The developer must balance the need for project density (to compensate for high land costs) while considering not only construction cost but parking cost. The graph above illustrates general cost parameters for different parking solutions. With a market rent of \$1.98 per square foot per month, it does not make economic sense to consider parking below the basement level – the cost is too high per space.



Parking one level underground (as implemented at the Penn and American project) is the most economical way to get density on a site. However, as demonstrated in the Target Projects' economics, public/private financing is necessary to implement this parking solution.

### Parking Regulations

The City of Bloomington requires that developers provide more parking than the market likely demands, particularly for residential. Because parking does not pay for itself, the City's parking regulations burden project economics. This is particularly true in higher density mixed-use projects and districts where parking can be shared among land uses.

**Table 7**

Parking Requirements				
City of Bloomington			W-ZHA Scenario Assumptions	
Residential				
1-Bedroom	1.8	Spaces	1.0 Spaces	
2-Bedroom	2.2	Spaces	2.0 Spaces	
3-Bedroom	2.6	Spaces		
4-Bedroom	3	Spaces		
Retail & Service Establishments			0.003 Spaces /1,000 Sq Ft	
<10,000 Sq Ft	0.0056	Spaces /1,000 Sq Ft		
>10,000 Sq Ft	0.0045	Spaces /1,000 Sq Ft		

Source: Stantec; W-ZHA

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The level of subsidy required to implement the 86<sup>th</sup> Street Concept Plan decreased by 53% when a market-based parking program was assumed. The 98<sup>th</sup> Street Concept Plan's feasibility gap was reduced by 45%. Note that developers have little interest in under-parking a project as this would compromise the project's marketability.