



West Broadway Transit Study

Economic Development Methodology

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Prepared by the
SRF Consulting Group Team
for







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1. Introduction

Metro Transit, in collaboration with Hennepin County and the Cities of Minneapolis, Robbinsdale, and Golden Valley, is seeking guidance in the selection of a mode and alignment for transit improvements along the West Broadway corridor. In addition to transportation goals, the consultant team understands that a key objective of the initiative is to support economic development along the corridor. Transit investment will support economic development to the extent that it (1) enhances **mobility**, i.e. the ability of residents, workers, and visitors to travel to, from, or within the corridor, and (2) provides a placemaking **amenity** that improves the public realm and brand of the corridor, making it more attractive for new development and thereby supporting its growth and development as an urban place. Past studies of the corridor, including *West Broadway Alive!*, have recognized the potential for transit to catalyze economic development.

This document outlines the methodology for evaluating the alternative alignments and modes according to their economic development outcomes. The alignment evaluation will be informed by an assessment of economic development potential in the corridor based primarily on improved job access and transit-oriented development potential. Once the consultant team has advanced an alignment for consideration, the detailed evaluation will focus on selection of either streetcar or enhanced bus service as the preferred mode based on projected real estate and economic development impacts catalyzed, recognizing that challenging economic conditions along much of the corridor may preclude new private development even with transit unless public subsidies continue.

Alignment

The consultant team will work with Metro Transit and its partners to assess the ability of alternative alignments to meet economic development objectives for the corridor, recognizing the unique real estate conditions and economic development needs of each sub-area in the corridor. Per past studies in the West Broadway corridor, economic development objectives are likely to include:

- Providing better **access to employment opportunities** for existing residents;
- Fostering **job creation** within the corridor by attracting new commercial uses;
- Encouraging **transit-oriented development** on underutilized land within the corridor; and
- Other **objectives arising out of community engagement** completed as part of this study.

Economic development potential will be one lens through which the consultant team will evaluate alternative alignments, joining other considerations including transportation, social, environmental, and engineering factors. To inform the recommendation, the SRF team will:

- Examine the potential to improve employee access to jobs. After preliminary alignment concepts are generated by Kimley-Horn, HR&A will assess each concept's ability to better connect local residents to jobs located both within and outside the corridor. This assessment will be informed by data from



the United States Census Bureau on existing commuting patterns, household income, and household car ownership and primary means of transportation.

- Examine the potential for transit-oriented development. HR&A and Tangible Consulting will characterize the development potential adjacent to each of the alignments under consideration. As part of this evaluation, Tangible Consulting will identify underutilized sites, confirming past inventories based on the most current property information available, and the team will jointly determine their attractiveness for new development or rehabilitation based on current real estate market dynamics.

Mode

The major focus of the economic development assessment will be on differentiating the impacts of the contemplated alternative transportation modes, streetcar and enhanced bus. To inform the selection of a mode, quantitative analysis will be conducted to measure three primary outcomes¹:

- **Property value**– Property value is a reflection of neighborhood desirability, which can be influenced by access to transit. The mobility and amenity benefits of transit - which may include access to employment and educational opportunities, the quality of the public realm, local environmental benefits, placemaking features, and neighborhood connectivity - can increase demand for real estate, which is ultimately reflected in the price of real estate. Our team will measure property value increases in terms of absolute and percentage change in property value for existing and new development over time.
- **New development** – In addition to enhancing the value of existing adjacent properties, this increased demand associated with transit improvements may catalyze a greater quantity of development, at a faster pace, than would have occurred without transit. Given that current economic conditions along much of the corridor outside the North Loop are not favorable to new private development, this transit premium may not be sufficient to encourage market-rate development in the near or intermediate term. It may, however, make the corridor more attractive to regulated affordable housing development and/or reduce the amount of public subsidy required for mixed-income housing or commercial development. Our team will measure the quantity of new development in terms of new commercial square footage and new residential units delivered over time.
- **Jobs supported** – The build-out of office and/or retail uses can accommodate additional employment opportunities in the corridor. Transit improvements may attract more office or retail development than would have occurred under baseline conditions if the area becomes more accessible and attractive, creating incremental employment benefits. Our team will measure the number of new jobs introduced along the corridor.

¹ As a byproduct of increased property value, development, and employment, host communities could receive new tax revenues which can be used to provide vital services like police, fire, and education and fund new community facilities. In similar studies, some jurisdictions have considered new tax revenues generated as a secondary indicator of economic development outcomes. Investigating new tax revenues generated would be appropriate if new market-rate development is encouraged by the transit improvement. Our team will determine the feasibility of this as the study progresses.



To evaluate the impact of streetcar and enhanced bus service on these outcomes, the consultant team will first assess current market conditions and create a baseline development scenario for the corridor over a to-be-determined timeframe of years assuming no transit investment is made. Once a baseline is established, the team will assess the impact of transit on development outcomes based on precedent analysis, feedback from the local real estate community, and financial feasibility analyses. The team will then compare the development outcomes under each transit scenario to the development outcomes under baseline conditions to determine the benefit of both streetcar and enhanced bus service.

2. Assess Baseline Conditions (Task J)

The consultant team will develop a baseline scenario based on current market conditions and the anticipated future build-out of the corridor without transit improvements.

The consultant team will review past studies to develop a baseline understanding of market conditions in the corridor. HR&A and Tangible Consulting will draw on and update, as necessary, the findings of past studies, including *West Broadway Alive!*, *Above the Falls Master Plan*, *North Loop Small Area Plan*, and other relevant plans, to produce a current summary of market conditions along the corridor. The summary will include current and historical data for the inventory of housing units and commercial square feet on the corridor, occupancy rates, rental rates or sales prices, and the amount of new housing units or commercial square feet delivered each year.

This summary will characterize the market for residential, office, and retail uses, including differentiation by type where appropriate (e.g., single-family, condominium, or multifamily apartment for residential). It will include profiles of recently completed projects and identify sources of public gap financing which may be applicable to future projects. The team will draw on local and national sources of socioeconomic and real estate market data, such as ESRI (which provides socioeconomic data), REIS (which provides data on the housing market), and CoStar (which provides data on the retail and office market), and will also confirm market data with developers active in the corridor during stakeholder engagement.

Based on market potential and available land capacity, the team will assess the potential for the corridor to achieve the future build-out envisioned by *West Broadway Alive!* and other community-endorsed plans. Development will occur in parts of the corridor where market potential (demand) and land capacity (supply) both favor new construction. For the purpose of evaluating real estate conditions, we will define the corridor as any property or parcel within one-quarter mile² of the proposed alignment. The team will divide the corridor into approximately four sub-areas to reflect appropriate neighborhood delineations. In each sub-area, the team will assess the two primary factors influencing development outcomes:

² The team plans to define the corridor as all property within one-quarter mile of the alignment, rather than a larger catchment area, because most literature examining the economic development impacts of transit operating in mixed traffic (e.g. streetcar or enhanced bus) finds that impacts are most strongly felt within one-quarter mile of the alignment or less.



- *Market potential.* HR&A will develop a financial model to assess the financial feasibility of new development and of redeveloping existing buildings. For new, unsubsidized market-rate development to occur, market rents must be sufficiently high to justify the cost of new development, given reasonable developer return expectations. HR&A's financial model will compare projected rents and development costs over time on a per square foot basis to determine if and when new unsubsidized construction becomes financially feasible in different portions of the corridor (i.e. the per square foot value of development is higher than its total development cost). The team will also develop reasonable assumptions about the application of public sector gap financing that would hasten feasibility by subsidizing the total development cost.
- *Land capacity.* SRF and Tangible Consulting will assess the corridor's physical capacity for new development. Based on zoning in the Cities of Minneapolis, Golden Valley, and Robbinsdale and the development character envisioned by previous plans, SRF and Tangible will estimate the "development envelope", or the amount of additional square footage available for residential, office, and retail use along the corridor.

Based on these development conditions, the team will create a baseline development scenario assuming no transit improvements are implemented. The baseline will describe the estimated build-out of residential, office, and retail uses in the corridor over the near-term and medium-term (years to be determined). Specifically, the baseline will describe these real estate conditions:

1. *Value* of existing and new properties;
2. *Pace* of new development; and
3. *Quantity* of new development.

Property values along the corridor inform the pace of new market-rate development. As rents rise and market value comes to exceed development costs, new development becomes financially feasible and developers will seek to undertake new projects if they perceive sufficient market demand exists. In the event market rents continue to lag the level required to justify construction costs, the delivery of new housing projects will hinge upon the availability of public and philanthropic subsidy, included affordable housing funds for regulated affordable projects and other sources of gap financing (e.g. TOD grants) for market-rate projects.

Whether subsidized or market rate, development is most likely to occur on "soft sites," i.e. vacant properties or other underutilized properties that are not currently used to the full extent zoning regulations allow. These sites along West Broadway were mapped by the *West Broadway Alive!* Plan several years ago, and will require a fresh look. The availability of such sites along the corridor, particularly sites located adjacent to transit stops, informs the final development outcome along with market conditions.

HR&A will also analyze the number of jobs generated as a result of the baseline build-out of commercial uses. For jobs supported, HR&A will project the number of new jobs using industry standard square-feet-per-employee ratios for office and retail tenants.



3. Analyze Transit Impact on Development (Task L)

Once a baseline scenario is established, the consultant team will examine the impact of transit improvements on development outcomes. The *West Broadway Alive!* Plan identified high quality transit service as critical for fostering economic development. The team will estimate the impact of streetcar and enhance bus improvements through a rigorous literature review, case study analysis, and engagement with the local real estate development community. A key input into this analysis will be the key performance measures of the streetcar and enhanced bus as identified by the consulting team, such as travel time, frequency, and ridership capacity.

HR&A will review and analyze the impact of comparable transit systems in the United States through a literature review and case study analysis. HR&A will conduct a literature review and data analysis of the economic impacts of comparable streetcar and enhanced bus investments. The review will focus on primary literature and identify previously quantified real estate impacts. The team will focus on the differential impact between streetcar and enhanced bus service, and account for any variation in impacts between single-family residential, multifamily residential, office, and retail uses. The team will also specifically examine impacts to affordable housing delivery.

HR&A will complete up to four case studies of streetcar and enhanced bus systems to identify ways that transit specifically catalyzes these impacts. In addition to determining real estate impacts, the case studies will also explain how transit helps advance other public policy goals such as placemaking or job creation. As public sector interventions have been demonstrated to be a significant factor in development outcomes, the case studies will also document the importance of other public policies and investments, in addition to transit, that helped to catalyze development outcomes. The team will focus the case study research on transit systems with demographic and market characteristics similar to the West Broadway corridor, specifically economically challenged neighborhoods with transit operating in mixed traffic.

To translate findings of the literature review and case studies to the local context, the consultant team will engage the local real estate development community to gauge their perceptions of the value of streetcar versus enhanced bus service. HR&A will conduct up to ten interviews with local developers and property owners to gather their opinions on the impact of transit investment in the West Broadway corridor. Specifically, the consultant team will solicit opinions on current real estate development conditions, the corridor's future development trajectory, and any factors that may differentiate streetcar from enhanced bus, such as branding, permanence, and placemaking. Insights from these interviews will be used to refine the findings of the literature review and case study analysis to the local context. Ultimately, the literature review, case study analysis, and developer engagement will be aggregated and used to inform the creation of alternative development scenarios for the corridor.



4. Evaluate Impact of Proposed Improvements on Corridor Development (Task K)

The consultant team will generate alternative development scenarios, reflecting the impact of streetcar and enhanced bus service on the baseline scenario. The team will then evaluate the net benefit to the corridor, in terms of property value, quantity of new development, and jobs supported, under each alternative versus under baseline conditions.

HR&A and Tangible will generate alternative development scenarios – one assuming streetcar and one assuming enhanced bus service – based on the projected development impacts of transit improvements. Transit could impact future baseline real estate conditions in the following ways:

1. *Value of existing and new properties.* Transit provides a mobility and amenity benefit for residents, workers, and businesses along the corridor. The value of these benefits is capitalized into the value of surrounding real estate, generating a price premium versus baseline conditions.
2. *Pace of new development.* For new, unsubsidized market-rate construction to occur, property values must justify development costs. Therefore, expediting increases in the value of property within the corridor will enhance financial feasibility and accelerate the pace of new development. A key question the team will examine is whether the increased property values will encourage market rate development in different sub-areas of the corridor.
3. *Quantity of new development.* By providing a mobility and placemaking amenity, transit improvements are likely to increase demand to live nearby, ultimately enhancing the competitiveness of the neighborhood for new development in comparison to other parts of the region. Increasing demand and value will give developers confidence to deliver a higher quantity of residential, office, and/or retail uses. The team will estimate the amount of property development that will occur if values rise enough to justify new market rate development in each sub-area of the corridor. Moreover, even if the increment in value is insufficient to justify market rate development, it may lessen the need for public subsidy to facilitate mixed-income housing and other subsidized products. The team will therefore also estimate the amount of additional property development that will occur assuming a modest level of public subsidy is granted.

The magnitude of the real estate impacts may differ between streetcar and enhanced bus service, allowing the model to generate distinct economic development outcomes for each mode. Similar to the baseline, these alternative development scenarios will describe the build-out of residential, office, and retail uses in the corridor over the near-term and medium-term (length of years to be determined). Where appropriate, HR&A will incorporate public gap financing into its financial feasibility analyses. The provision of public subsidies that support transit-oriented development and subsidized housing serves to enhance financial feasibility and will expedite build-out of development along the corridor.

HR&A will evaluate the net benefits, in terms of property value and new development generated, of each alternative scenario versus baseline conditions. HR&A will compare the net benefits resulting from a streetcar or enhanced bus service versus baseline conditions without a transit investment. Impacts could range from no or limited change to achieving full build-out of the development envelope.



HR&A will estimate the incremental number of jobs under each alternative compared to baseline conditions. New transit investment is expected to support job creation by attracting more office and retail development to the corridor than would have occurred under baseline conditions. Similar to the baseline analysis, HR&A will project the number of new jobs created using square-feet-per-employee ratios.