MetroStats

METROPOLITAN COUNCIL

Commercial Construction in the Twin Cities Region Soars in 2014

December 2015

Key Findings

- The total permit value of commercial construction in the Twin Cities region increased dramatically in 2014, due in large part to the two stadium projects in Minneapolis and Saint Paul.
- Office construction was the largest share of commercial permit value issued between 2010 and 2014, followed by commercial service construction.
- While several large commercial projects were built in Minneapolis in 2014, the region's Suburban communities also issued a large share of commercial permit value.

About us

The Regional Policy and Research team at Metropolitan Council wrote this issue of *MetroStats*. We serve the Twin Cities region—and your community—by providing technical assistance, by offering data and reports about demographic trends and development patterns, and by exploring regional issues that matter.

For more information, please contact us at research@metc.state.mn.us.

Download the data used in this report at http://metrocouncil.org/data. Select "Building Permits, commercial, industrial and public" and select your geographic areas of interest. Please note that our data collection on development is ongoing. The numbers published in this report may not reflect the most current data available.

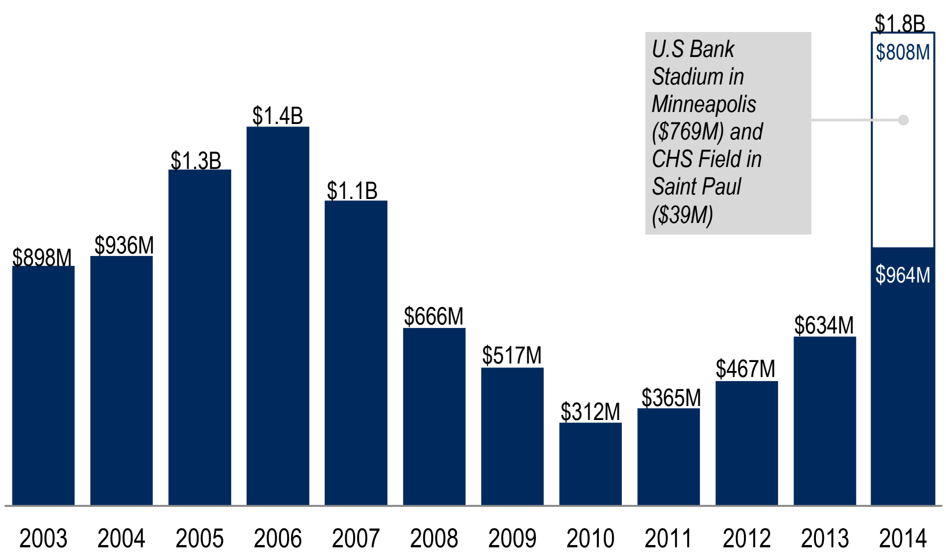
"Nonresidential" is an umbrella term for construction activity in three major sectors—commercial, industrial, and public and institutional. Each sector is a distinct market, influenced by national, industry-specific trends and location preferences. We describe nonresidential construction as a whole in another issue of *MetroStats*, "From Recovery to Resurgence: Nonresidential Construction in the Twin Cities Region in 2014 (pdf)." This issue of *MetroStats* describes trends in the region's commercial sector—that is, offices, retail and commercial services, like restaurants, hotels and stadiums.

Commercial construction strong in 2014, bolstered by large projects

In 2014, the total permit value of all nonresidential construction in the Twin Cities region reached $2.4 billion, the highest level since the pre-recession development boom in 2006. Seventy percent of this permit value—about $1.8 billion—came from permits issued for commercial projects. Two large, commercial stadium projects alone—U.S. Bank Stadium in Minneapolis and CHS Field in Saint Paul—accounted for 34% of the 2014 total.

Even without the two 2014 stadium projects, however, commercial construction has increased annually since 2010 (Figure 1). Commercial permit value (not including the stadium projects) increased 52% between 2013 and 2014, and 36% between 2012 and 2013.

Figure 1. Total permit value of commercial construction in the Twin Cities region (2014 dollars)



Source: Metropolitan Council Commercial, Industrial, Public and Institutional (CIPI) Building Permit Survey, 2003-2014. Note: Not all cities and townships respond to our annual survey so the region's total nonresidential permit value may be underrepresented.

The Twin Cities region as a whole issued 225 permits for commercial construction in 2014, a slight increase from 2013 and nearly double the number of commercial permits issued in 2010, when commercial construction bottomed out during the Great Recession. Just over half (51%) of the commercial permits issued across the region in 2014 were for commercial service projects. Figure 2 shows the location and permit value of the 2014 commercial permits by subsector.

Figure 2. Commercial permits issued in 2014 by permit value and subsector

Permit value: Less than $5M | $5M to $14.9M | $15M to $49.9M | $50M and more | City or township did not respond to the 2014 survey

Commercial services (114 permits) | Office & office/retail mix (49 permits) | Retail (62 permits)

The 5 highest-value projects of 2014

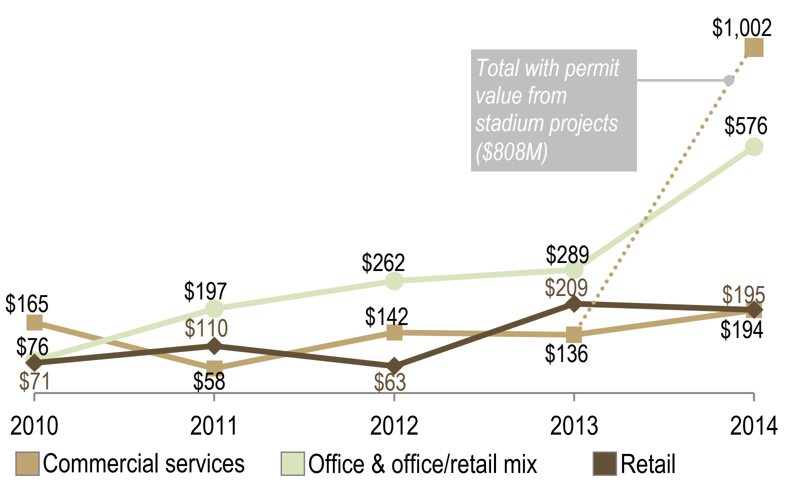
Commercial services:
- $769M, U.S. Bank Stadium, Minneapolis
- $39M, CHS Field, Saint Paul
- $29M, Hyatt Regency, Bloomington
- $25M, Hampton Inn And Suites, Minneapolis
- $12M, Surly Brewing Company, Minneapolis

Office & office/retail mix:
- $198M, Downtown East Towers, Minneapolis
- $137M, 3M Corporate, Maplewood
- $57M, Mall of America, Bloomington
- $39M, Margaret A Cargill Philanthropies, Eden Prairie
- $33M, Be The Match, Minneapolis

Retail:
- $30M, Ridgedale Center, Minnetonka
- $20M, Richfield Bloomington Honda, Richfield
- $15M, Walmart, Blaine
- $10M, Buerkle Honda, Vadnais Heights
- $10M, Knollwood Shopping Center, St. Louis Park

Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2014.

Figure 3. Total permit value of commercial construction by subsector (in millions of 2014 dollars)



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2014.

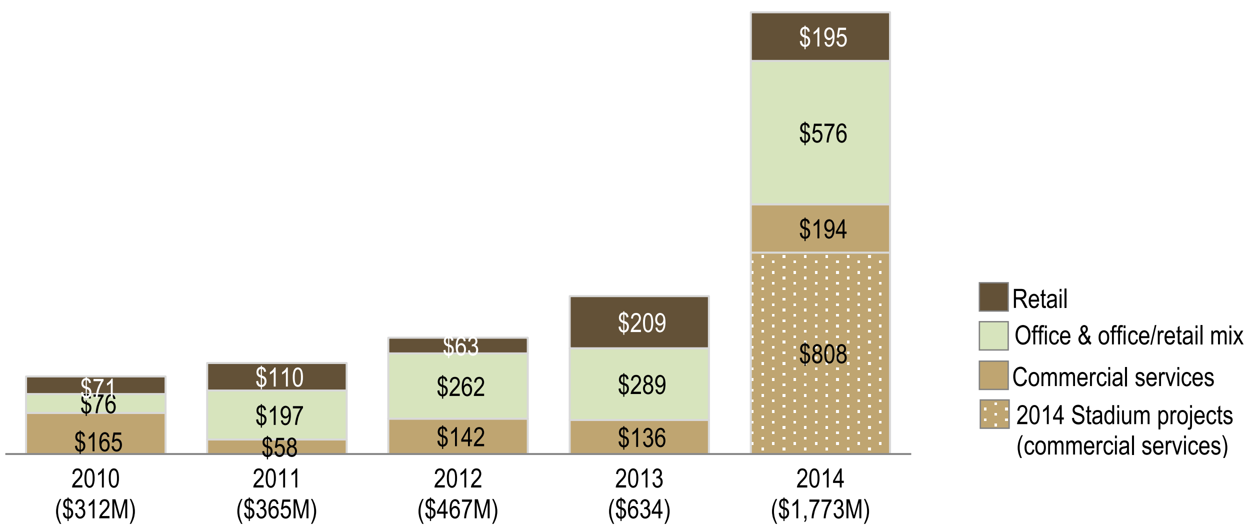
Office construction drove the commercial sector's post-recession growth

Office construction had the largest gains of any commercial subsector since 2010. The total permit value for office construction (which also includes office/retail mix projects) increased sixfold, going from $76 million in 2010 to $576 million in 2014 (Figure 3). The largest gains occurred recently—between 2013 and 2014—as commercial real estate lending activity and rates became more favorable for developers. Office construction became a larger share of the total commercial permit value as its activity increased (Figure 4). In 2014, if the stadium permit value was not included, office construction would account for 60% of the region's total commercial permit value. With it, office construction was a third (32%) of the 2014 total.

The total permit value of retail construction grew considerably in the post-recession years, nearly tripling since 2010 (Figure 3). Most recently however, retail construction contracted slightly, decreasing 7% between 2013 and 2014 while other commercial subsectors increased.

"Commercial services" refers to permits issued for a wide range of projects, such as banks, hotels, restaurants and, as we saw in 2014, stadiums. Setting the $808 million from the 2014 stadium projects aside, the total permit value of commercial service construction increased 18% between 2010 and 2014, a considerably lower growth rate than that of office construction (Figure 3). However, our survey is designed to capture new construction and large expansions (additional square footage), and is less likely to pick up redevelopment or restoration of existing commercial spaces. Real estate market trend reports show that a considerable amount of post-recession commercial activity has involved redevelopment, especially for businesses like restaurants and grocery stores.[2]

Figure 4. Share of the region's total commercial permit value by subsector



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2014.

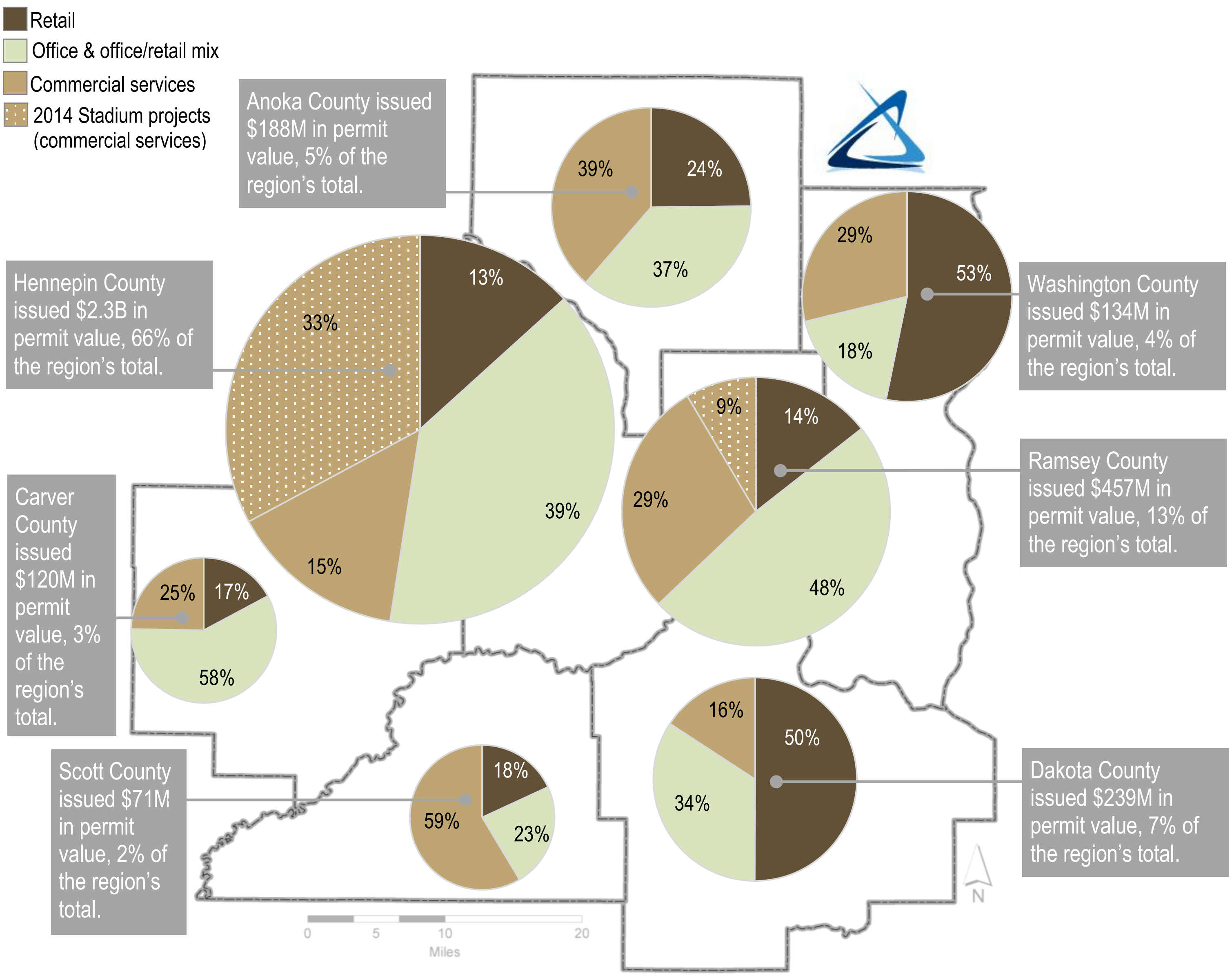
Hennepin and Ramsey Counties issued highest commercial permit value in the Twin Cities region since 2010

Hennepin County issued 66% of the region's total commercial permit value issued between 2010 and 2014, followed by Ramsey County, which issued 13% (Figure 5). Dakota County issued another 7%. Anoka, Washington, Carver and Scott counties issued much smaller shares of the region's post-recession commercial total.

The balance of subsectors within each of the seven counties differs (Figure 5). While Hennepin and Ramsey counties are distinguished by the 2014 stadium projects, they—along with Carver, Anoka and Dakota—also had more than a third of their commercial permit total come from office construction. Washington and Dakota counties both had about half of the commercial permit value they issued between 2010 and 2014 come from retail projects. Over half (59%) of Scott County's commercial permit total was due to commercial service construction.

[2] CBRE MarketView Office and Retail reports for Minneapolis/Saint Paul, 2010-2014.

Figure 5. Total commercial permit value by county and subsector share, 2010-2014



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2014. Note: Twenty-six cities or townships across the region had missing or incomplete CIPI data between 2010 and 2014.

Urban communities experienced most growth in commercial permit value

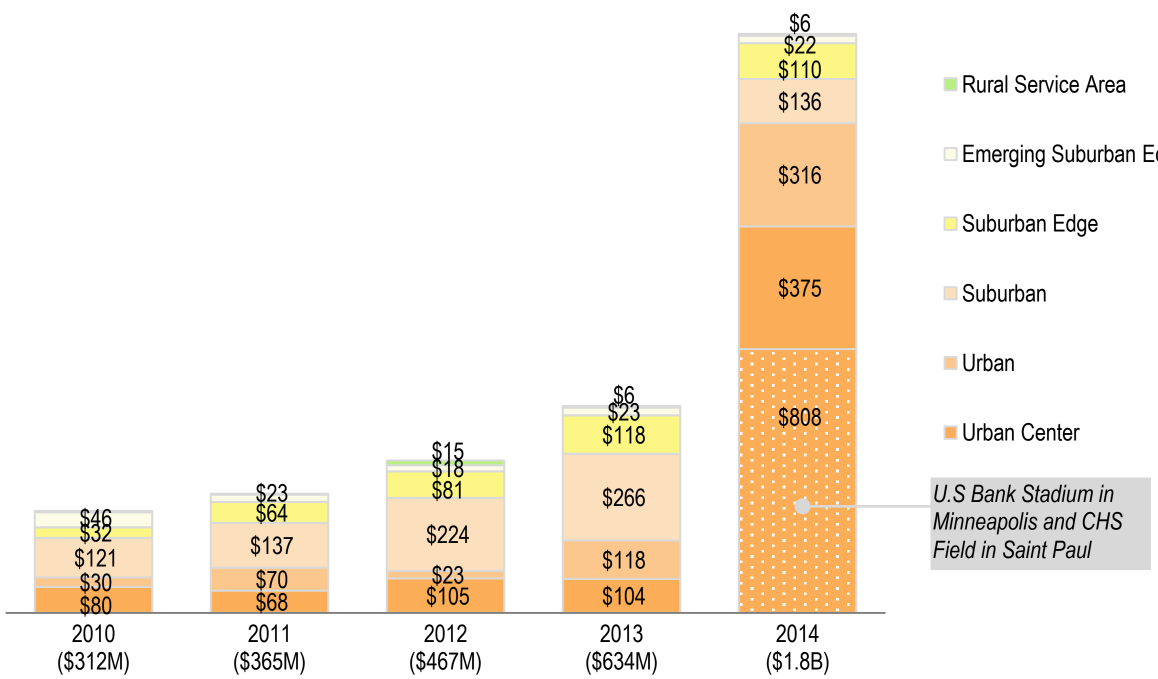
The seven-county region contains a wide variety of communities ranging from farming-based townships to densely developed downtown neighborhoods. Recognizing that one size does not fit all, we use *Thrive MSP 2040* Community Designations to group cities and townships with similar characteristics in order to more effectively target policies. Each city and township in the region receives a designation based on their existing development patterns, common challenges and shared opportunities (read more about Community Designations in the regional development guide, *Thrive MSP 2040*—pdf).

Within the context of nonresidential construction trends, Community Designations can be viewed as high-level, geographic market segments. For example, if a new distribution center was looking for a large parcel of land with highway access, this business would likely locate in one of the region's Suburban Edge or Emerging Suburban Edge communities, rather than in an Urban community that has fewer large parcels zoned for industrial use and available for development. Tracking the development and growth within Community Designations informs long-range planning for land use and future infrastructure investments, such as highways and transit.

Setting aside the 2014 stadium projects, we observe the following trends (Figure 6):

- The region's Urban Center communities experienced a net increase of $295 million in commercial permit value between 2010 and 2014.
- Of all Community Designation types, Urban communities experienced the largest overall growth since 2010, increasing tenfold. (However, they did start from a small base of $30 million in 2010).
- The commercial permit valued issued in the region's Suburban communities had some peaks in 2012 and 2013, but overall increased only 12% over this time period.
- Unlike Emerging Suburban Edge communities, which decreased in total permit value between 2010 and 2014, the region's Suburban Edge communities nearly tripled.

Figure 6. Total commercial permit value issued between 2010 and 2014 by *Thrive MSP 2040* Community Designations (in millions of 2014 dollars)

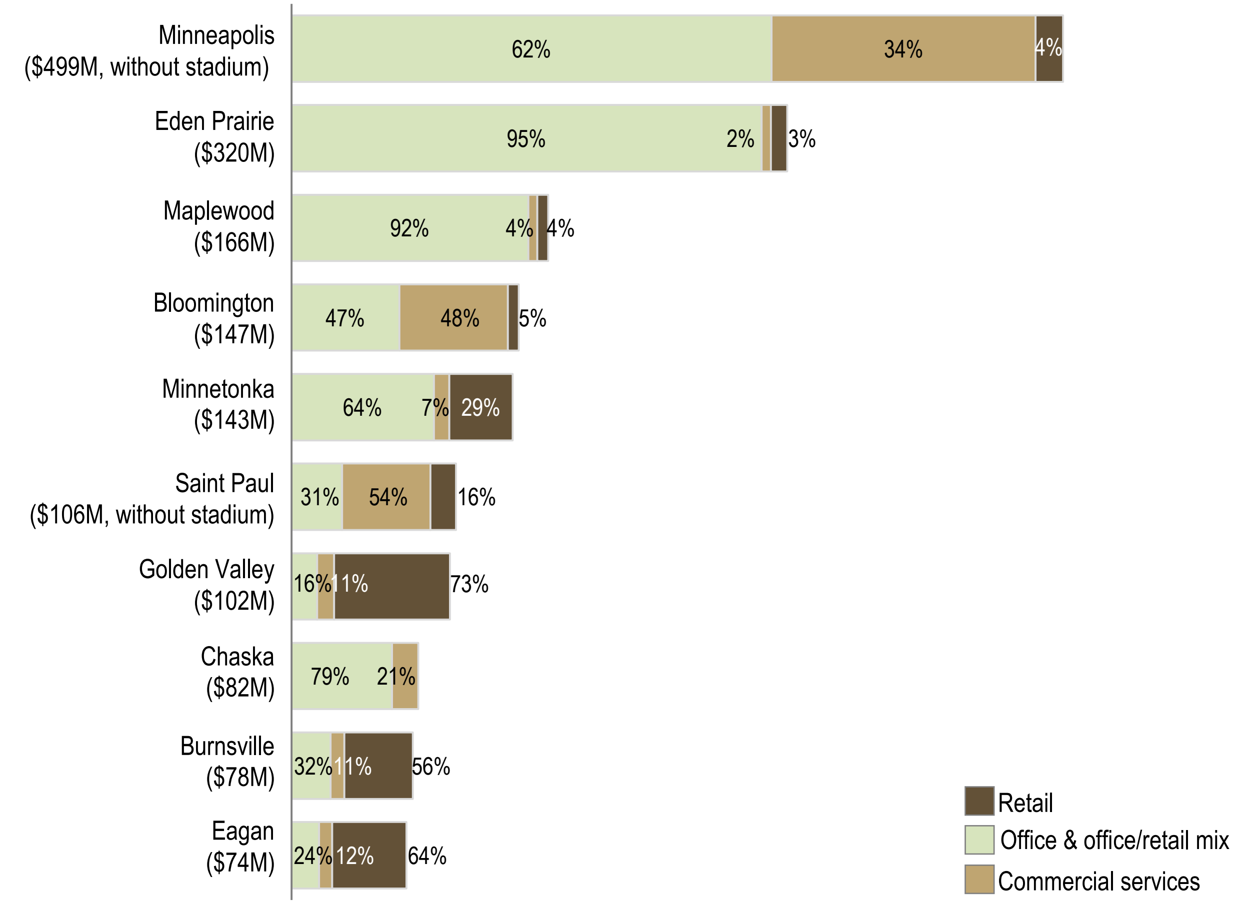


Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2014. The region's Rural Service Area consists of Rural Centers, Diversified Rural, Rural Residential and Agricultural communities. The permits issued in non-Council communities are excluded in Figure 6; the totals may not match other figures in this report. Values under $5 million may not be labeled.

Cities with highest post-recession commercial permit value had strong office construction

Nearly half (48%) of the region's total commercial permit value between 2010 and 2014 (not including the 2014 stadium construction) was issued in the ten cities listed in Figure 7. In six of the ten cities, like Eden Prairie, Maplewood, Chaska and Minnetonka, office construction was the largest share of their commercial permit value. Other cities in the top 10 such as Saint Paul, Bloomington and Minneapolis, showed a combination of office and commercial service construction projects. Golden Valley, Eagan and Burnsville had more than half of their commercial permit total coming from retail construction.

Figure 7. Ten cities with highest total commercial permit value, 2010-2014



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2014.

2014 Office construction highlights

Following a slow but steady post-recession recovery, office markets finally took off in 2014 (Figure 3). The total permit value of office construction increased 50% region-wide in one year, going from $289 million in 2013 to $576 million in 2014. Recovery was most evident in the single-tenant, build-to-suit office construction. Wells Fargo's Downtown East Office Towers was the largest 2014 office construction project with a permit value of $198 million. (It is also the largest single office project in downtown Minneapolis since 1992.) The second highest-value project was 3M's Research and Development building addition to its corporate campus in Maplewood, another build-to-suit development with a total permit value of $137 million.

Wells Fargo's Downtown East Office Towers in Minneapolis

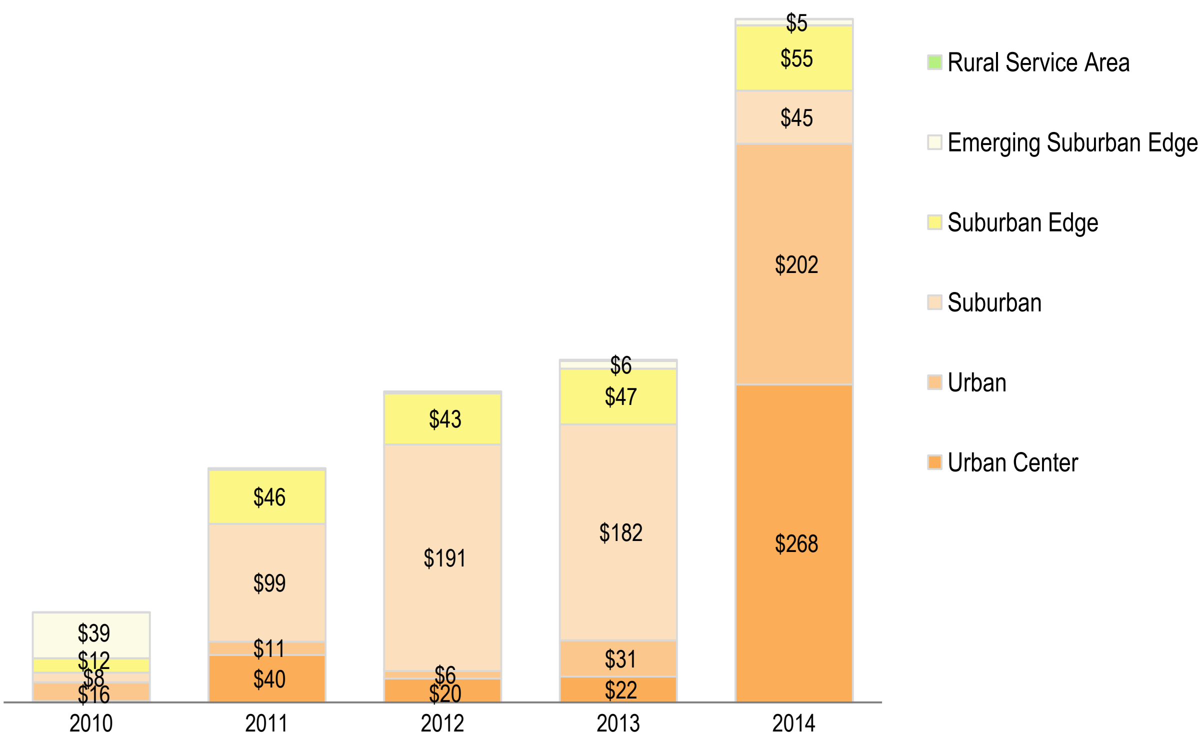
Photo Credit: Finance & Commerce (2015).

Further demonstrating the strength of the office market, the region had its first significant multi-tenant speculative building in years. The permit value for this project—the first phase of the Mall of America expansion—was $57 million. The project includes multiple components, including a 14-story JW Marriott Hotel, a two-level underground parking garage, and seven stories of office space above three stories of retail space.[3]

Medical office construction was the only part of the office market that contracted. The total value of medical commercial projects shrank by slightly more than half, from $108 million in 2013 to $53 million in 2014. This pattern was in sharp contrast to 2013, when medical office construction was the main driver of recovery in the office markets. The Hazelden Fellowship Club addiction treatment center in Saint Paul ($17 million) and the Grove South medical offices in Maple Grove ($16 million) were the two highest-value medical office building projects in 2014.

Office construction activity was most robust in the region's Urban Center and Urban communities in 2014. This is in striking contrast to 2013, when these two Community Designations were a much smaller share of the region's total office permit value (Figure 8). This pattern is likely to continue in 2015 given the central location of several big projects in the pipeline. Two large build-to-suit projects—Xcel Energy's new office building as well as the new headquarters of CenterPoint Energy in downtown Minneapolis—and two multi-tenant speculative projects—the T3 project and the Target Field Station Center projects in the North Loop—will likely be among 2015's highest-value office projects.

Figure 8. Total office permit value issued between 2010 and 2014 by *Thrive MSP 2040* Community Designations (in millions of 2014 dollars)



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2014. The region's Rural Service Area consists of Rural Centers, Diversified Rural, Rural Residential and Agricultural communities. The permits issued in non-Council communities are excluded in Figure 8; the totals may not match other figures in this report. Values under $5 million are not labeled.

[3]Brian Johnson, "Megamall: Four Projects in One Expansion," Finance & Commerce, April 29, 2015.

2014 Retail construction highlights

Since 2010, retail construction across the Twin Cities region has nearly tripled in permit value (Figure 3). Between 2013 and 2014, however, the total permit value decreased slightly, going from $209 million to $195 million.

Much of the region's 2014 retail construction involved shopping center renovation and expansion projects, which accounted for 45% of the total retail permit value in 2014. Phase 1C of the Mall of America expansion ($57 million) in Bloomington[4], the second phase of the Ridgedale Center redevelopment and expansion ($30 million) in Minnetonka, and the renovation of the Knollwood Shopping Center, St. Louis Park ($10 million) were among the largest 2014 shopping center retail projects.

Ridgedale Center in Minnetonka

Photo Credit: Minneapolis/St. Paul Business Journal (2015).

Richfield Bloomington Honda in Richfield

Photo Credit: Sun Current (2014).

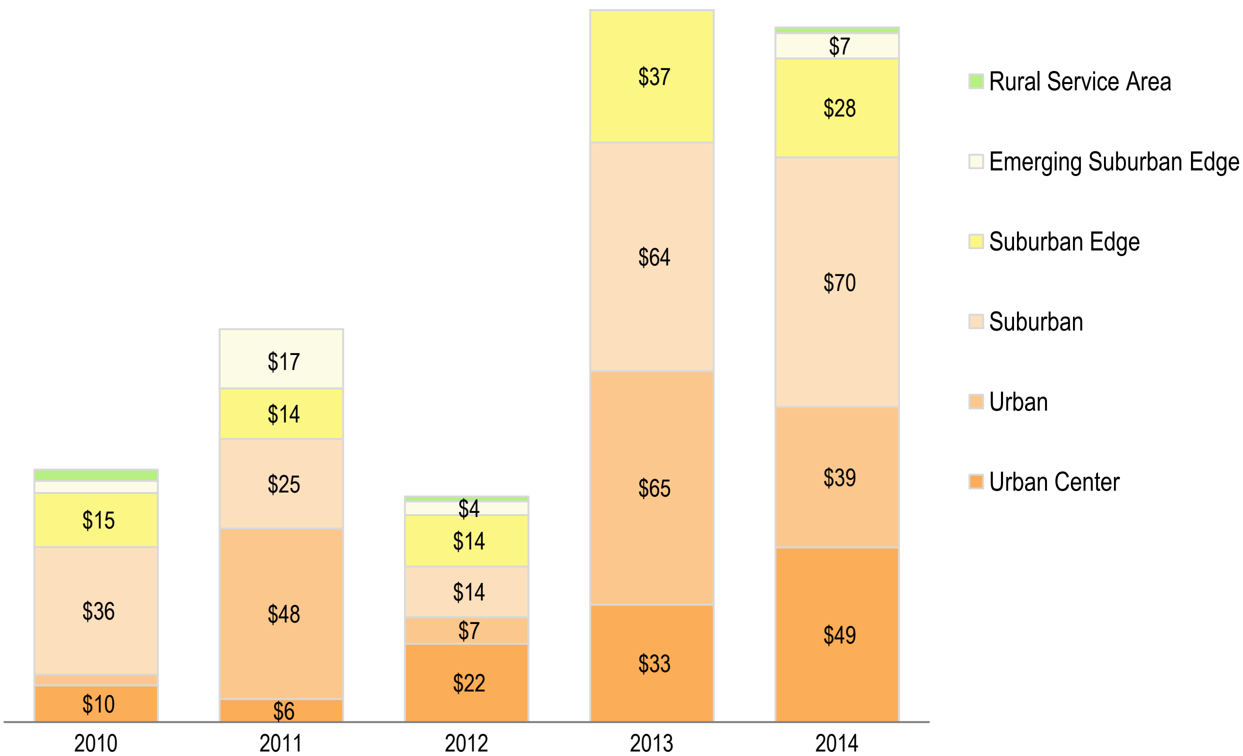
As in 2013, a sizeable share of 2014's total retail permit value came from permits issued for car dealerships. This area of the retail market has experienced significant investment in the last few years as demand for new cars has increased. Dealerships are updating their space and services as well as expanding under pressure from car manufacturers.[5] In 2014, the total permit value issued for car dealerships reached $57 million. With a permit value of $20 million, the expansion of Richfield Bloomington Honda was one of the largest such projects in 2014.

Grocery-anchored developments have continued to be a significant part of the retail market. Retailers serving both the low and high ends of the market have projects in the pipeline. Hy-Vee, a grocery chain new to the Twin Cities region, as well as chains that already had a Twin Cities presence (such as Aldi and Kowalski's) pulled permits for new stores in various parts of the region. The total permit value of grocery store construction amounted to $27 million in 2014.

Suburban communities issued the largest share of retail permit value in 2014, totaling $70 million, which was up from $64 million in 2013. Retail construction in the region's Urban Centers was another quarter (25%) of the 2014 total. Retail permit value in Urban Centers also increased in by 33% between 2013 and 2014. Retail permit value issued in 2014 was lower in Urban, Suburban Edge and Emerging Suburban Edge communities compared with 2013.

[4]This figure includes the Mall of America expansion ($57 million), which we also included in our office and office/retail mix subsector in the previous section. Since this project involves the region's most significant retail center, it is relevant in our retail highlights, even if the majority of the square footage for this particular building is primarily offices.
[5]Janet Moore, "On car lots these days the hot deal is the lot itself," Star Tribune, August 16, 2014.

Figure 9. Total retail permit value by *Thrive MSP 2040* Community Designations, 2010-2014
(in millions of 2014 dollars)



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2014. The region's Rural Service Area consists of Rural Centers, Diversified Rural, Rural Residential and Agricultural communities. The permits issued in non-Council communities are excluded in Figure 9; the totals may not match other figures in this report. Values under $5 million may not be labeled.

Read related issues of *MetroStats*

Learn more about nonresidential construction and development patterns in the Twin Cities region:

- From Recovery to Resurgence: Nonresidential Construction in the Twin Cities Region in 2014 (December 2015)
- Bust Turned Boom: Industrial Construction in the Twin Cities Region in 2014 (December 2015)
- Public and Institutional Construction in The Twin Cities Region in 2014 (November 2015)

About Our Commercial, Industrial, Public and Institutional Building Permit Survey

Measuring the volume of commercial, industrial, and public and institutional construction activity annually is not straightforward. Some information sources that report new development focus on when construction started. Others, on how much development is underway at a point in time, and still others on when a structure is completed or occupied. In this report, projects are counted at the time local governments issue building permits. No information on demolition is included, so the data represent a gross construction volume, but not the net gain in property value. With annual updates, however, the data are useful for assessing long-range trends.

Data collection methods

The Metropolitan Council surveys each city and township, requesting the following information:

- Building name or tenant (if unknown, may list developer)
- Building type
- Address
- Square footage
- Description of building use
- Parcel identification number (PIN)
- Permit value of building
- New building or addition

We designate each listing as either "Commercial," "Industrial," or "Public and Institutional" based on descriptive information provided by survey respondents. The public and institutional category includes government offices, public works facilities, schools (public and private), hospitals and nursing homes (without a residential component), religious entities, public recreation structures, transit and other transportation facilities.

Data considerations

One project may consist of multiple building permits; one for the major structural construction, with separate permits for other work such as mechanical, electrical and finishing work. We have attempted to 1) represent the permit valuation for all new projects and additions (if over $100,000) and 2) avoid duplication. However, there may be some inconsistency because of project complexity and differences among local permit record-keeping systems. Whenever it was possible to differentiate, the Research team only included building permits that involved the addition of new square footage.

Project "value" reflects the estimated cost of construction reported on the building permit. Permit values exclude some costs including land and landscaping, and are typically lower than market values of completed properties. City-to-city comparisons may not be entirely valid if there are differences in survey completeness or methods of permit valuation.

Other construction activity may have occurred on properties of state and federal jurisdictions that are not included in this report. The University of Minnesota, for example, is not included in our survey since it does not have to apply for building permits from local jurisdictions.

Occasionally a project will be put on hold after the building permit has been issued. All permits reported by local officials for this survey are included in Metropolitan Council's database and in this report, regardless of status. For the most current data, download this dataset directly from our website: http://metrocouncil.org/data

Airport permits in public and institutional construction

Throughout this report, the total value of commercial, industrial, and public and institutional projects excludes the permit values of airport projects. While airport projects create employment, their impact on land use tends to be inconsequential because they are limited to fixed airport boundaries.