

REGIONAL COUNCIL OF MAYORS

April 11, 2016

PRESENTATIONS AND DISCUSSION

LEGISLATIVE UPDATES

Housing Options Coalition

The Housing Options Coalition has decided not to pursue legislation that would change parts of the existing statute on the construction and sale of condominiums, said Cathy Capone Bennett. Currently, the Housing Options Coalition maintains, condos aren't being built because of the length and scope of liability under the statute. Changes would limit the liability somewhat.

Bennett said that one recommended change, which would make those bringing suit against condo developers and/or sellers pay attorneys' fees if they lose their cases, has had some opposition. Rather than try to push the proposed changes this year, the Coalition has stepped back and will look at changes in the future.

Transportation

Jim Hovland said the effort to push an additional 1/2-cent sales tax in the Metro area to finance transit is continuing, but "We're at the 11th hour and the next three weeks will be really critical."

Hovland said the Minnesota Chamber of Commerce is on board and overall, support from the business community will be influential. Supporters of the Metro sales tax increase have been emphasizing how the tax increase will benefit Greater Minnesota, by leaving more general fund money to support roads and bridges outside of the Metro.

Metro Cities

The second committee deadline is now passed, said Patty Nauman of Metro Cities <http://www.metrocitiesmn.org>, and the focus now is on the finance, tax and bonding bills—with big differences between the governor, the Senate and the House.

"Ninety percent of lobbyists time is spent trying to kill things," Nauman said, and listed a number of bills that are considered problems for Minnesota cities:

- A bill that changes the law on pooling limits for tax-increment financing districts. The proposal is a clarification to the law, according to it's author, but "We see it as a policy change," Nauman said.
- A bill that would require cities to ease restrictions on add-on housing, or "granny flats." Nauman said that the idea sounds good on the surface, but the bill would usurp city processes and doesn't consider safety concerns that some cities have.
- A bill that would exempt outdoor seating capacity from the sewer availability charge of the Met Council.

- A bill requiring cities adopting an interim ordinance related to housing to have a two-thirds majority to pass the ordinance.
- A bill requiring cities to create an email list for the businesses in their cities so businesses can be notified of any ordinance coming up for discussion that may affect them. Nauman said this would be “onerous” for cities.
- A bill that would allow cell towers to be installed in rights-of-way, without any city control.
- A bill that would provide for a “reverse referendum” on franchise fees.

Many of these bills have failed to make it through committee or to meet committee deadlines, but some can resurface in omnibus bills.

Metro Cities is *supporting* a flushable wipes bill that would require companies making and marketing the personal wipes to show that a flushable, non-woven wipe can pass through a municipal waste system. If it cannot, it would not be able to carry a “flushable” or “septic-safe” label.

COMMERCIAL REAL ESTATE

Overall, commercial real estate development and sales are healthy—although not quite back to the pre-recession period, said Blake Hastings, Minneapolis-St. Paul managing director for CBRE, and Tony Barranco, vice president of development for Ryan Companies.

Still, some aspects of commercial real estate that have challenges and Hastings and Barranco said they are expecting to see a recession in the next year or two. “We’re already starting to dig in to managing during a recession,” said Barranco. “There will be some challenges in the next 24 to 36 months.

In the next few years, key commercial real estate projects are going to happen in the area of the old Ford plant and around the new soccer stadium in St. Paul, around the Southwest LRT line and in the West End area of St. Louis Park, said Barranco. The region’s major corporations do not, for the most part, seem to need large new facilities.

Hastings and Barranco outlined some of the current commercial real estate situation:

Office

- Rental rates are about \$3 per foot higher than they were before the recession. “It’s not crazy, but a nice growth,” said Hastings.
- Most office growth is in the 394 corridor, downtown Minneapolis and the North Loop.
- Absorption has been positive since 2011.
- Corporate build-to-suit has added to the increase in office square footage.
- At the same time, many office users are starting to downsize space, not because they are downsizing staff but because of new office trends. Hastings said, for example, that his company was downsizing from 42,000 square feet to 34,000 square feet. “There is a trend of no assigned desks,” he said.

Industrial

- The industrial vacancy rate is 7.6 percent, which is just below pre-recession levels.
- Companies are looking for amenities, transit and connections for their offices. “Transportation is a very big factor,” said Hastings.
- There has been less growth in industrial space for the med-tech industry than expected.
- Absorption is a concern in the northwest Metro.

Retail

- The strongest areas of retail real estate are grocery, anything amenity-based, dollar stores and restaurants.
- The broad power center for retail is “dead,” said Hastings.
- Premium space rents are going up.
- The southeast part of the Metro has been slower to develop than other areas. “I don’t really see that changing,” said Barranco. “The southeast Metro is going to be very slow until density in the rest of the Metro forces it.”
- Subsidizing retail is not advisable, Barranco said; retail operations will go where the customers are. “Cities ask how to get a Whole Foods in their community,” he said. “I say, ‘Just add 40,000 people who make \$80,000 a year or more.’”

Healthcare

- Healthcare is growing, and so is its real estate. It’s the second highest job growth sector in the Twin Cities. The sector will continue to grow, even when/if others decline with the economy.
- Four of the 15 Metro hospitals have vacancy rates of nearly zero; about half have less than 5 percent vacancies.
- There is “a lot of capital that wants to be in medical,” said Barranco.

Multifamily

- There were record sales of multifamily buildings in 2015, with a slight uptick in vacancies. “We’re probably somewhere in the sixth inning,” said Hastings. “It’s still very positive for growth.”
- Prices for multifamily buildings also hit record numbers.
- The supply has shifted and construction costs have gone up, which will temper growth going forward.
- In the last five years, 20,000 new multifamily units have been built, almost all of them rental rather than condos.
- New multifamily buildings have been built and are planned around the urban core.

Hospitality

- There has been a flurry of new construction and remodeling in the hospitality area, including 16 new hotels.
- There has been a big shift in supply, trending toward select service for Millennials, said Barranco.
- There still is no 5-star hotel—and none planned—in the Twin Cities.

Senior Living

- There are 750 senior living facilities in the Twin Cities, ranging from independent living to memory care.
- Senior living construction will continue to grow. “We have yet to come even close to where the bubble is,” said Barranco.
- Senior projects are being built across the Metro; they are not concentrated in one area.
- Senior living construction will grow even in a down cycle of the economy, driven by aging Baby Boomers. “Ryan Companies has made it an investment focus,” said Barranco.

For more information, see [PowerPoint presentation](#).

METROPOLITAN COUNCIL RECOMMENDATIONS

Members of the Metropolitan Council should continue to be appointed by the governor and to serve four-year terms, but the selection process, member qualifications and timing of the terms should be changed, according to a task force of the Citizens League <http://citizensleague.org>.

In a report issued this month http://citizensleague.org/wp-content/uploads/2016/04/Met-Council-Task-Force-Final-Report_FINAL.pdf, the task force recommended that:

- Met Council terms would be staggered, so that all members do not leave the Council at once when there is a change in governor.
- The governor would continue to appoint the chair and the Met Council members.
- The current nominations committee would increase from seven to 13 members, with seven representing citizens at large and six representing local governments.
- Additional public announcements that accurately describe the position, time commitment required, etc. would be posted in advance of a call for nominees.
- The nominations committee would recommend up to three finalists for each open position, and the names of the finalists and their qualifications would be made public at least 14 days before the governor selects members. “This puts some pressure on the governor,” said Pahoua Hoffman of the Citizens League. “It changes the culture and creates accountability.”
- Member qualifications should include experience in local government and/or experience in other areas such as transportation, environment, housing or regional development; demographic diversity of each district and of the region; and ability to meet the time commitment required.

Hoffman said Citizens League representatives have met with the governor’s office and state legislators, including Representative Tony Albright and Senator Scott Dibble. Albright is authoring House legislation on the Met Council and Dibble has a bill that includes the Citizens League recommendations.

FOCUS ON WATER

At the suggestion of Caren Dewar, a subcommittee was set up, headed by Lili McMillan of Orono, to develop suggestions for whether and how the Regional Council of Mayors can be involved in Metro—and state—water issues, whether it’s providing education or working for change in how water infrastructure is funded.

Mayors have complained about a complex and sometimes duplicative system for dealing with water issues, and they are concerned about aging infrastructure and paying for improvements and replacements. The interest and concern is high, but how to proceed is not clear.

EXECUTIVE DIRECTOR'S REPORT/UPDATES

Greater MSP

Cecile Bedor, executive vice president of Greater MSP <https://www.greatermsp.org>, said the 2016 version of the Regional Indicators Dashboard <http://www.greatermsp.org/regional-indicators/regional-indicators-dashboard/> will be released in mid-May. The organization also has commissioned a study on how the Twin Cities region is perceived, which will be discussed at the next Regional Council of Mayors meeting.

Bedor said Jennifer Erickson has been hired to advance Greater MSP's Metro Export Initiative. She will work with local companies to help them launch or expand sales into overseas markets.

The Twin Cities has been recognized by the U.S. Department of Commerce as a regional center of excellence for medical manufacturing, Bedor said, which means more funding for the region—including a recent \$200,000 grant.

COMING UP

The next meeting of the Regional Council of Mayors will be Monday, May 9th, 11:30am at Dorsey & Whitney.

ATTENDEES

Mayors

Bill Droste	City of Rosemount
Jerry Faust	City of St. Anthony
Mary Giuliani Stephens	City of Woodbury
Ken Hedberg	City of Prior Lake
Kathi Hemken	City of New Hope
Jim Hovland	City of Edina
Marvin Johnson	City of Independence
Sandra Krebsbach	City of Mendota Heights
Peter Lindstrom	City of Falcon Heights
Lili McMillan	City of Orono
Tim McNeil	City of Dayton
Terry Schneider	City of Minnetonka
Jake Spano	City of St. Louis Park
Nancy Tyra-Lukens	City of Eden Prairie
Ken Willcox	City of Wayzata
Janet Williams	City of Savage
Gene Winstead	City of Bloomington

Guests

John S. Adams, University of Minnesota; Adam Axvig, Tunheim; Tony Barranco, Ryan Companies; Karen Barton, City of Richfield; Cecile Bedor, Greater MSP; Mike Ericson, City of Centerville; Rick Getschow, City of Eden Prairie; Tom Harmening, City of St. Louis Park; Blake Hastings, CBRE; Kristopher Jenson, Tunheim; Burke Murphy, CSW; Patricia Nauman, Metro Cities; Jennifer O'Rourke, Met Council; Kristin Seaman, Saint Anthony Village; Jeremy Striffler, Cushman & Wakefield; Patrick Trudgeon, City of Roseville; Jamie Verbruegge, City of Bloomington; Peter Wagenius, City of Minneapolis; Steve Woods, Freshwater Society.

ULI Staff, Consultants

Aubrey Austin, Cathy Bennett, Caren Dewar, Gordon Hughes, Linda Picone