

# Minnetonka: Western Glen Lake Corridor Development Initiative

## Workshop 3: Developer Panel

July 28, 2014

The Glenn, Chapel, 5300 Woodhill Rd, Minnetonka

### Meeting Notes

#### Developer Panel Discussion

Facilitated by Barbara Raye, Center for Policy Planning and Performance

#### Panel Members:

- **Bill Beard, The Beard Group**
- **John Mehrkens, Senior Housing Group / Presbyterian Homes**
- **Pat Mascia, Briggs and Morgan**
- **Keith Ulstad, United Properties**
- **Tom Ryan, Oppidan Investment Fund**

#### *Opening Questions:*

1. What is your development expertise?
2. How would you redevelop the western Glen Lake area?

#### Bill Beard, The Beard Group

- Bill's development background includes mixed use projects with residential, commercial, and office components. Recent projects are located in Hopkins' Mainstreet, and Osseo.
- **Recommendations for the site: Residential with possible small amount of retail.**
  - It's a terrific site. There is a "there" here – a synergism and community feel that can be built on.
  - Learn from a recent mixed-use project I did in Hopkins:
    - Residential / rental units – 100% full
    - Commercial space – 100% vacant
  - Limit the commercial space.
  - The scenarios that were proposed in the block exercise weren't nearly as dense as other projects in the area.
  - Greater density can drive stronger amenities, and make the area more walkable. Many uses are already here.
  - You are on the right track with how you are looking at the opportunity of the site.

#### John Mehrkens, Senior Housing Group / Presbyterian Homes

- John specializes in senior housing of all types, and oversees project development and consulting services for Presbyterian Homes.

- **Recommendation for the site: Housing has good potential for the area. Neighborhood-based senior community (limited size) might work – not a larger compound.**
  - Already a significant amount of senior housing in the area. There is a value in multiple components that compliment each other.
  - Over time more seniors will be going to need housing products.
  - Making Glen Lake a destination that doesn't attract more traffic present conflicting goals.
  - The area won't attract national retail tenants. More likely to be smaller (Mom & Pop) / local retail options.
  - All-age housing products may also be saturated.

### **Pat Mascia, Briggs and Morgan**

- Pat's primary areas of expertise are in commercial real estate development and leasing, commercial real estate acquisitions, zoning and land use law, structured and project finance, and commercial and corporate finance. Recent projects include the West End in St. Louis Park, the Wilder Center in St. Paul (LEED Gold Certified), and almost 1.5 million square feet of industrial and office space.
- **Recommendation for the site: Primarily housing, but also cries for some sort of mixed-use.**
  - Limited possibility of some smaller office space.
  - The cost of redevelopment is high, and will push the need for density up.
  - Need to address the tension of parking and traffic.
  - Good area for neighborhood retail and local shops, but it will be hard for them to pay the higher rents of a new building.
  - As a residential site it looks fantastic.
  - For a mixed-use project, each element needs to stand on its own. The housing needs to be viable with or without the retail / commercial space. And the success of the retail / commercial space should not depend on the housing.

### **Keith Ulstad, United Properties**

- Keith's expertise is in retail investment and development. While focusing primarily on grocery-anchored neighborhood shopping centers, he also has a strong market knowledge, and relationships with many tenants in the retail sector. He has been responsible for the development or redevelopment of more than 25 shopping centers.
- **Recommendation for the site: Probably predominately a housing site. If retail / commercial mix it has to be done carefully, with primarily convenience services (of which there are already a fair amount in the area).**
  - 10 – 15,000 square feet of commercial space, maybe 20,000, could be viable. Which presumes 1,200 – 1,500 sf shops. (The meeting room space is about the same size.)
  - It's important to think about what the site is, and what it is not. There is a very hard boundary from a retailer's perspective. The area will not be attractive to national retailers.
  - I don't see it as an office site. Typically office begets office. Maybe small medical offices would work.
  - The site will most likely be led by housing, with well thought out commercial included. (Not primarily commercial, with housing included.)

### **Tom Ryan, Oppidan Investment Fund**

- Tom works with commercial clients to find sites, and supports them through city processes and lease negotiations or land purchases.

- **Recommendation for the site: Mixed-use.**
  - The site is unique.
  - Good location for a pharmacy.

***What is the “right mix” of housing for the area?***

JM No matter how many housing units are added on the site, it won’t be enough to tip the market to bring retailers here (presuming 30 – 130 new units built). It’s not a dramatic enough increase to the market. There is a diversity (or continuum) of the senior housing market, from independent to skilled nursing. The most well received type is Independent Living – which is also the most challenging to do as free standing element. People are moving into this type of housing at later stages of life (more frail). An interim step is a townhome / condominium / cooperative. The trend will continue with new home services, allowing people to stay in their homes longer. Cooperatives are a good ownership model, predominately independent, few parking needs, lower density might lend well to the site.

***What’s the right size of commercial space?***

PM Depends on the type of use. Larger restaurants, such as CRAVE, need 10,000 square feet. Smaller restaurants, like a sushi place, might use only 2,000 square feet. The size of the space needed depends on the neighborhood / customer base. Outdoor seating helps to expand the seating area. A yogurt shop is typically 1,200 square feet. For a 10,000 square foot area, you would probably need 10 tenants / stores.

KU The challenge is in designing the retail space. A shallow commercial space is 60 feet deep. 30,000 square feet requires a lot of customers to fill it up. Mixed use needs to be carefully done, and designed so that all uses can succeed.

PM The depth of the retail presents a challenge for what you build above (configuring vertically). Also, be thinking about how open space is integrated in the site. The more you add commercial space, the more parking you will need.

TR We used to think that people would live, shop, all in one place (vertical uses). That didn’t turn out to be true. All elements need to support themselves independently from each other.

KU The big challenge of mixed use is that the developer needs to build to what is hot. Waves that go through the economy don’t support doing different things at the same time. I have a project working now that was originally going to be condo / office. We ended up shifting through six different uses, and are finally landing on three. Mixed use projects are a matter of market timing – you need to wait for the stars to align.

***How can we make the area more walkable?***

People will walk around Glen Lake, but they won't walk to Glen Lake. There's no grid, and the area converges around the site. The lack of a street system will hurt walkability. To make it more walkable, put structured / surface parking near Glen Lake. Get to the site, make it convenient so that people will become pedestrians.

***How can we attract people to the area?***

JM Creating a destination is a lofty goal. Something that would get people to drive in from other places might be a series of specialty shops. More people usually means more parking. Housing will be underground parking, and will require fewer spots than commercial uses. Structured parking will be financially challenging: \$27,000 per stall vs. \$3,500 - \$4,000 per stall for surface parking.

BB Rule of thumb – the purpose of place-making is to make an area special or cool for those who live in the area, greater good for the community. Making it a great spot, means it will be a great place to live. Concentrate on making one space special, which makes the neighborhood special. When you have a lot of retail, it requires a higher parking requirement, which may detract from the place-making elements.

JM There are many tension points to be managed.

***What does a developer look at to select a site? What would draw you to a particular site?***

TR The price of the site and its access for retail. Access is less important for housing. The Gold Nugget is a draw for the area.

***Explain more about "the box / boundary" that limits the retail market of the area?***

KU The area is bounded by Hwy 494, 7, Crosstown, and 101. Major roads are a psychological barrier for people. This is a neighborhood retail setting – and a cool one (e.g. Gold Nugget, Kramer Hardware). A grocery store needs a market area of 42,000 households to be viable.

***What happens to the existing businesses on the site? Will they need to move? Or could they stay?***

PM The hard part is the transition for existing businesses, and the need for temporary relocation during construction. The other challenge is higher rents in the new space (necessitated by the cost of the new construction). Often the local retailers are not able to stay, even if they can deal with temporary relocation.

***What's the likelihood that the entire site gets developed together, given the multiple property owners?***

- PM Depends on how the City wants to stage it. What will the plan be long term? It may be that no one can purchase all the sites, but a plan could be in place that is staged over time. The fact that a developer would need to aggregate multiple sites makes a larger project much more challenging to do.
- JM An economic package will appeal to an investor. The big challenge is in trying to assemble multiple sites, and keeping everyone on the same page (usually there is at least one hold out). A phased approach allows for transition, but adds to the cost.
- BB No developer will want to come in to do the whole site all at once. There are no tools to accomplish (site acquisition) easily. A land use plan could help.

***Wouldn't office space as a component of a mixed use project offer more foot traffic which would create a destination?***

***Attempts at grocery stores keep failing. Would a smaller Mom / Pop drug store or grocery store be viable?***

- BB Developers don't create a market, we respond to it. No matter how much a community want it, it won't happen unless the market is there. Office space is very compatible with mixed use residential.
- TR Not sure if this is an office market. Not easy to access. A grocery store could potentially work as a smaller foot print. The previous grocery store that recently closed did so because of other problems.

***Glen Lake is bordered by two schools / daycare, which are great for bringing people into the area for goods and services. Wouldn't that factor in to strengthen the market for a grocery store?***

***Can we work with a corporate partner to acquire and hold sites for a long-term vision and strategy? Example: DesMoines IA***

- KU The school and daycare are great for bringing people in, but not enough traffic to impact retail. There's not enough daytime population to attract restaurants.

The simple answer to the second question is no – Land ownership is a cost on a balance sheet. Businesses are putting more work into longer term growth plans. United Health Group purchased a site at Shady Oakes, driven by what they need for their business rather than what the community needs.

- PM As Cargill put together their new campus they considered how to recruit and keep talent. They assessed where their employees lived, and looked for a location that would

be easily accessible. Be-the-Match (a bone marrow business) wanted to be near light rail.

Office growth is hard to count on today. There hasn't been much employment growth, and there are a lot of vacant office buildings to fill before building new.

JM The Des Moines example was about social accountability, and the need for the city to remain competitive. In a larger region its harder to do.

The likelihood of finding a small grocer is difficult. The margins for grocery stores are very small (no room for error). A different kind of grocer may work. Pharmacies have a strong system to assess viable sites. The likelihood is more remote.

BB Smaller format grocery stores are happening (e.g. Aldi's, Trader Joes, Kowalski). The sector needs clarity to figure out if the smaller stores are a viable option. It's really about the viability of the location (not as much about the rents).

### ***What's hot in development right now?***

JM Senior housing – just look at the demographics. Actually, the baby boom won't access senior housing for another ten years. Today's seniors are active and independent longer. Pockets of housing types will have certain success due to pent up demand.

PM Industrial. Apartments continue to hang on. Rumors that the condo market is starting to come back. Office is not (it's stable but not hot).

KU Fast, casual dining / fresh fast food (e.g. Chipotle). Smaller grocery stores (28 – 30,000 square feet) are being tested. Industry standard is 50 – 60,000 square feet. Lakewoods Co-op is an example of a smaller grocery store. Fresh Time farmers market (30,000 sf) has an emphasis on fresh produce.

TR Discount stores (e.g. Goodwill). Note the recent acquisition of Family Dollar by Dollar Tree to compete with Walmart.

BB The Osseo residential project we are doing has 71 units, designed for a mix of age levels (Millenials, Baby Boomers, Gen X). They want the same things on the exterior, but different interior spaces. Baby boomers want larger units with storage. Millenials need less space – smaller units.

### ***What makes a site attractive to a developer?***

PM A lot of what is discussed in the block exercise scenarios are viable – it depends on the right mix. Attracting national retailers is not a viable option. Multi-story office building is not a viable option. What makes a great site? The surrounding context, what's

missing that might be added? Figure out the pieces of the puzzle. A developer takes on a lot of risk, and when it doesn't work out, they absorb the losses. Ultimately, having the right location at the right price is what works.

***Is there an unmet demand?***

KU It feels like a great residential site, with retail as an amenity. It's a well connected part of town.

***Are we already filled out with neighborhood retail?***

KU The post office is a great draw – important amenity. Keeping it will make the development better.

BB You can do residential without retail. In our Osseo project on Main Street the community wanted retail. We showed them the cost of putting retail in the project, and they decided not to. There is a "there" in Glen Lake. The cost to do retail will require subsidy in the 15% to 20% range.

JM There are economics to making a project work. You need to look at the value of the site, not the price of the site. This site can be developed as a housing only site (or housing as the dominant component). Other retailers would probably like more retail in the area.

***What about Target Express? Or Walmart, who is looking at a smaller option?***

KU Possibility, but too soon to tell. Target has one Target Express at 16,000 square feet (a pilot project), but the jury is still out as to whether it will be successful. Walmart is talking about doing a smaller store, but they haven't figured out how to bring the scale down. It's a ways off, but I'm not saying it won't come.

***Your risk is our risk. Members of the community are exhausted by previous development. A high-rise condo project is still sitting idle. How would that inform this site? And what would you advise the City Officials if you were a resident?***

TR The idle project wouldn't have a huge impact on future development – not enough housing units (rooftops) to affect the market.

PM Absolutely, the community shares in the risk. No developer comes in wanting a project to fail. The developer is putting the money in. There are so many moving parts, the assumptions can't be controlled. The best the community can do is to be knowledgeable about what the developer is about (background), do a market study, and this process is a great step to be informed. Educate yourself and you will have more success than failure.

BB In our Osseo project, 80% of the residents came from the local community. People don't want to leave their community, but also don't want the responsibility of home up-keep.

***It's good that we are getting an understanding of what density will be needed. The previous proposal for the site wasn't necessarily bad, but concerns about traffic pushed the developer off. What is it going to take give a proposal the green light?***

**(Closing Comments)**

BB Redevelopment is scary because people don't know how it will end up. When proposals are submitted, they don't know how to react. Minnetonka is a great place, and that won't change. Think about how to add another piece to make it more special. One redevelopment project won't change who you are as a community.

JM I commend you for the work you are doing, and I understand why you are tired. This process is a good way to educate each other about how to make a project successful. The good news is that it's a viable site, and will attract people who are willing to go through the brain damage to make it work.

PM West End was grueling. It took three years to plan, had a lot of conflict, was a painful process, AND we ended up with a better project. You need to build trust on both sides.

KU It's good to have constructive criticism. A clear vision is better for everyone. I'm impressed by the process and the strong turn-out on such a nice summer night.

TR This is a special community. I encourage you to keep working together.