

➤ TWO WORKPLACES WHERE WOMEN THRIVE

➤ BEHIND THE SUCCESS OF THE TWINS FANTASY CAMPS

APRIL 2014
TCBMag.com

TwinCities BUSINESS

EAST SIDE STORY

WHY
DOWNTOWN
EAST MAY
SOON FEEL
PRETTY

816

\$3.99



0 74470 66912 8

04

Banking on Minneapolis

The Inside Story of Wells Fargo's Leap of Faith into Downtown East.

By Burl Gilyard

The corner of Portland Avenue and Fourth Street in downtown Minneapolis feels like forsaken terrain: a no man's land close to the heart of the city. The neighborhood's defining feature is a sea of dismal surface parking lots that look like the shadowy "Backstreets" of a Bruce Springsteen song.

There are no tall buildings, skyways or food trucks in Downtown East (for this story's purposes the windswept extremity of downtown east of Third Avenue South). It's a solid 10-block hike from here to the IDS Center. Even the panhandlers don't seem to have much interest in the area: There's hardly anyone around to ask for spare change. A sign on one of the blocks touts a parking rate of a mere \$3 per day.

It appears to be an unlikely intersection to anchor the largest redevelopment project that the city has seen in decades, an expansive \$400 million plan by Minneapolis-based Ryan Cos. US Inc. But there's no area of downtown that needs the project more than Downtown East. The vision will unfold on five blocks of land totaling 12.5 acres that had been owned by the *Star Tribune* for what seemed like forever.

The deal to overhaul Downtown East wouldn't be happening if not for San Francisco-based financial

giant Wells Fargo & Co., which is investing \$300 million—75 percent of the total project cost—and will own two office towers overlooking a new urban park, creating a corporate campus at the edge of downtown Minneapolis. The office towers will house 5,000 employees for Wells Fargo, which ranks as downtown's second-largest employer, behind Minneapolis-based Target Corp.

But what does Wells Fargo see in the lonely streets of Downtown East that no one else has seen for decades?

"It's going to be fun to be on the cutting edge of turning an area that hasn't been real vibrant into a much more vibrant area. We like the fact that there's development coming in," David Kvamme, CEO of Wells Fargo Minnesota, tells *Twin Cities Business*. "We think it's just going to be a really exciting place for our team members to call home."

Downtown East? Exciting?



Pave parking lots to put up a mixed-use paradise? Ryan Cos. has \$400 million plans for Downtown East.

Kvamme says that Wells Fargo sees big changes ahead for the neighborhood. The Ryan plan also calls for residential units and retail space, and Kvamme expects to see more of both drawn to the surrounding area. Kvamme says that the numerous transit options—including nearby light rail—tipped the scales in favor of the Downtown East site over suburban options.

The story of how, and why, a bank holding company based elsewhere became the catalyst for the biggest redevelopment project

in decades reveals no single leading champion or effort, but rather a rare, nearly perfect confluence of interests, abilities and timing.

The stars align

The complicated Downtown East project fell into place thanks to a timely confluence of circumstances: the development of the Minnesota Vikings' new football stadium, an old-school media company looking to divest itself of long-held land holdings, the quest by Wells Fargo to create a new campus, and a Minneapolis mayor near the end of his tenure looking to keep jobs in the city.

The deal was in the works for 16 months before Ryan closed on the site in February, according to Rick Collins, who has been pilot-

ing the project as vice president of development for Ryan Cos.

For Wells Fargo, the new urban park was a linchpin without which the project could not have fallen into place. "This site was not attractive enough for a corporate user to make a several-hundred-million-dollar investment," Collins says, "if surrounded only by surface parking lots."

Ryan is planning to break ground on its project in mid-May. It is set for completion in mid-2016.

But where, then, are Wells Fargo employees going to eat lunch in an area that currently looks like an asphalt desert? Jim Montez, a veteran downtown office broker with Bloomington-based Cushman & Wakefield/NorthMarq, says that the density of the planned redevelopment project will draw other retail to Downtown East.

"When you add that many

people, there will be other retailers that will want to capture some of that business," says Montez. "I think it will be a great environment for food trucks. Five thousand people aren't going to bring a bag lunch everyday."

And after years of little development interest in Downtown East area, other developers are starting to chase apartment and hotel deals in the area near the Ryan project (see map, page 32).

Wells Fargo employs more than 20,000 people in Minnesota. More than 18,000 of those jobs are in the Twin Cities, which ranks as the second-largest concentration of Wells Fargo staffers in the United States. It currently has about 7,000 employees spread across 14 buildings in downtown Minneapolis. Given the size of its Twin Cities presence, Kvamme said Wells Fargo is seeking to own more of its local space.

Wells Fargo paid Ryan \$217 million in February for the yet-to-be-built towers. "This

\$400 MILLION

Total budget for Downtown East overhaul



Projects in and Around Downtown East

1

Latitude 45

301 Washington Ave. S.
Minneapolis-based Alatus LLC will develop this 13-story, 319-unit apartment building on a site close to the Wells Fargo office towers.

2

Wells Fargo office towers

Two new buildings to house 5,000 employees.

3

Downtown East Apartments

Three buildings with 180-200 new units.

4

Minneapolis Armory

500 Sixth St. S.
The vintage building dates to 1935 and is currently used as a covered parking lot. Plans have been floated to remake it into an event center.

5

Urban park

A city park just west of the new stadium.

6

Undeveloped site

800 Washington Ave. S.
Past development plans for this vacant city-owned site have not come to fruition. Minneapolis is expected to issue a call for development proposals this year.

7

Mixed-use hotel/apartments

Block bordered by Park, Washington and Chicago avenues and Third Street South. Minneapolis-based Sherman Associates has proposed a mixed-use hotel/apartment concept on this block near the stadium.

8

New parking ramp

Serves both office workers and stadium.

9

Vikings stadium

\$975 Million project opens in 2016.

5TH AVENUE

A "wall" of parking ramps cutting off Downtown East from the central core.



Light Rail
Blue and Green lines meet.



10
Stonebridge Lofts
1120 Second St. S.
Coon Rapids-based Shamrock Development is completing the 12-story, 164-unit condo building. First residents can move in May 2014.

is a big investment for Wells Fargo. It's the biggest real estate transaction that we have going on across the country right now and we're really excited about it," says Kvamme. "It's a great way for us to solidify our presence in the Twin Cities."

How a deal comes together

The idea of new development in Downtown East is almost a foreign concept.

When the Metrodome opened nearby in 1982, no development followed in the surrounding area. Downtown East has since been cut off from the core of downtown by a wall of government edifices and parking ramps. The district has been largely known as the home of the *Star Tribune* and Hennepin County Medical Center.

The *Star Tribune's* land had been in play before, back in 2007, but Collins says that at the time, Ryan was not interested: "Downtown East has been difficult to redevelop for 30 years because it's physically isolated. It's not connected to the downtown core. The pieces weren't yet in place," Collins says.

Ironically, for an area choking on surface parking, a planned new parking ramp proved a key piece of catnip for the developers. "Downtown East has two groundbreaking amenities: a new stadium and a park," says former Minneapolis Mayor R.T. Rybak, "but the key building is actually the far less sexy parking ramp."

The ramp will be owned by the Minnesota Sports Facilities Authority, and financed by the

city and the MSEFA. That public investment in parking provides leverage for the project: Office workers can park there during the week when the ramp would otherwise be empty. The public financing is a key incentive for Wells Fargo, which is underwriting the costs of the parking ramp and the park.

Collins recalls that Ryan executives first sat down with *Star Tribune* representatives in February 2012, just to talk informally about ideas for the five-block site. The possibility of a new Vikings stadium—which had not yet been approved—in the area would require new parking close to the facility.

"We were trying to puzzle through with them what the impact might be, what kind of projects might result and how to do the best job possible of leveraging the public investment in the parking to create a launching point for a redevelopment of the whole neighborhood, including their property," Collins reflects. "We went back and forth with the *Star Tribune* several times. There was no particular rush."

Independent of those conversations, Collins says that Ryan knew Wells Fargo was exploring options for new space. Ryan had pitched the bank on sites in the I-694 corridor in summer 2012. Rybak recalls Wells Fargo executives paying him a courtesy call in fall 2012. The bank was looking for a new campus site, but didn't see any viable options inside the city limits.

Rybak countered with four options: the Upper Harbor Terminal site in north Minneapolis, the Bassett Creek Valley at the western edge of downtown, a site at Lake Street and Nicollet Avenue where a Kmart now stands and the Downtown East venue.

"We hadn't been looking real seriously at specific sites at the



1,610 **PARKING SPACES**
New parking ramp near stadium



5,000
Wells Fargo staffers in new towers

Wells Fargo Expands in Iowa

Wells Fargo is consolidating employees in space it owns in other markets, too. In West Des Moines, Iowa, Wells Fargo is constructing a new \$100 million project on its campus there. It will bring another 1,800 Wells Fargo employees to the site. The Des Moines area is another stronghold for Wells Fargo.

"What we've been told by [Wells Fargo] is they have about a million square feet of leased space throughout the metro and what they're trying to do is consolidate some of that space," says Clyde Evans, director of community and economic development for the City of West Des Moines, where Wells Fargo is the largest employer.



11
Valspar research & development facility
1101 Third St. S.
Minneapolis-based Valspar Corp. is completing a \$30 million renovation of its former headquarters into a new research and development facility. Completion is scheduled for late spring.



\$300 MILLION

Wells Fargo investment in office towers



Downtown East 1982-2013: The now-demolished Metrodome, surrounded by a concrete sea of surface parking.



time. But we had come to the conclusion that it would be very logical for us to build a home for team members somewhere. We had contemplated sites throughout the metro area," Kvamme says, adding that Wells Fargo was "very intrigued" with the ideas that Rybak floated. Kvamme notes that Wells Fargo also weighed expanding its south Minneapolis campus, the former Honeywell site, where it houses approximately 4,500 employees.

The mayor connected Wells Fargo and Ryan Cos., which began talking about the *Star Tribune*

properties in fall 2012. But before meeting with Wells Fargo, Ryan hammered out an option to buy the *Star Tribune* properties. "We wanted to make sure that we had control of the land," Collins says.

Site assembly can often be one of the most complicated elements of developing real estate. Here, the *Star Tribune* properties offered a rare chance to acquire a large urban site from a single owner. If Wells Fargo expressed interest, Ryan wanted to be in a position to deliver.

Another meeting between Ryan and Wells Fargo in Decem-

ber went even better, and the deal started to gain traction. Wells was working to keep its name out of the press. Ryan and city officials stuck to the script of only referring to an unidentified "corporate user," even though it was an open secret in many circles. Ryan converted its option into a purchase agreement for the Strib land in May 2013.

Rybak had opted not to run for re-election. So after 12 years in office, getting the Downtown East project done before leaving office became an all-consuming effort.

"It meant that for close to a year we were having several meetings a week, and near the end almost every day," says Rybak. "We didn't have a solid commitment from Wells Fargo until the very end. We knew it was likely: We were in very close contact with them. But they always reserved the right to walk away."

The Minneapolis City Council unanimously approved the project in mid-December. A few

days later, Wells Fargo formally announced its commitment.

Ryan's Downtown East plan calls for 1 million square feet of office space for Wells Fargo, about 180 to 200 market-rate apartments in three other buildings and a new urban park covering nearly two city blocks. Ryan will also build a parking ramp with 1,610 parking spaces that will be owned by the Minnesota Sports Facilities Authority.

Downtown East: Ghostly by design

The office development marks the largest single office project in downtown Minneapolis since Capella Tower, which opened in 1992 as First Bank Place. But in area, the five-block scale of the Downtown East plan rivals the redevelopment of the former Milwaukee Road Depot, a 16.4-acre site that the city acquired in 1992.

At press time, the Metrodome was being demolished and the

new \$975 million stadium is under construction. The \$957 million light rail Green Line will link up with the existing Blue line just east of the area; service to St. Paul starts in June.

Jim Vos, a principal with the Minneapolis office of Cresa, a commercial real estate broker, says that for corporate users like Wells Fargo, there are no available large blocks of space in downtown Minneapolis. That's driving some of the build-to-suit deals tailored to specific corporate clients. Vos says Downtown East is the only remaining area for the expansion of downtown Minneapolis. North Loop—the current hot neighborhood for development—"has run out of land to develop."

Local pundits have long scoffed that the only new development created by the Metrodome over the last 30 years was a single sports bar, Hubert's. But looking back at the city's planning agenda from the early

12.5 ACRES

Five-block area sold by *Star Tribune*





"We felt we needed to make a bold stroke."

Rick Collins,
vice president of development, Ryan Cos.

1980s, there's a good reason the Metrodome never led to a spate of real estate projects: It was never meant to drive development.

A City of Minneapolis planning report from November traces some of the history that created the current Downtown East, an area that had been known to planners as Industry Square.

"The Metro Center '85 plan, completed in 1970 as the guiding policy for downtown Minneapolis, called for a strategy of fringe parking ramps to capture employees on the outskirts of the downtown Minneapolis office core," the November report notes. "While the goals of this policy were effective in maintaining a compact office core not dominated by parking structures on valuable land, it also positioned downtown for the current wall of parking structures along Fifth Avenue South."

"The peripheral parking strategy, back in the '80s... it was a good idea at the time. [But] it created this wall on Fifth Avenue of parking ramps, so it cut off Downtown East from the core," says Chuck Lutz, interim director of the city's Community Planning and Economic Development (CPED) department. "They did not want to see significant development in Downtown East, because they wanted to preserve a compact core."

The point of reference was cities like Phoenix or Winnipeg, with vast, sprawling downtowns full of blocks of derelict buildings and/or surface parking—a fate the city wanted to avoid.

In 1970, at the advent of the Metro Center '85 vision for the

city, Downtown East was much different: "Industry Square was dominated by such businesses as those specializing in paper, printing/publishing, food and related products, electrical machinery and electronics," says the November report.

As businesses left the area, the city began acquiring "dilapidated properties" in 1974 in the Industry Square area, following the completion of a redevelopment plan. Many of those sites ultimately became the Metrodome site. In the area around the Dome, clearing the land for surface parking was often the best move for property owners. "They were highly lucrative sites for the parking lot owners for stadium parking and tailgating, and served as inexpensive parking during the week for office core employees," the report notes.

When the 2004 opening of the Hiawatha (Blue) light rail line drew near, the city outlined big plans for the area in its Downtown East/North Loop Master Plan in 2003. Both areas were then considered "underdeveloped districts" in downtown Minneapolis.

North Loop has since exploded with projects. The area has been one of the strongest markets for new apartment projects in the metro and is home to Target Field. Not much has changed in Downtown East, however.

Looking ahead 20 years, the 2003 study predicted big changes: 8 million to 12 million square feet of new Class A office space, 750 to 1,500 dwelling units, 1,000 to 1,500 hotel rooms, and as much as 450,000 square feet of retail space. Ten years later, almost none

of that development activity has materialized.

Steve Cramer, president and CEO of the Minneapolis Downtown Council, recalls attempts a decade ago to draw development to the block with the light-rail plaza above the underground Downtown East parking ramp.

"There was not a market-driven need for office [space] over there. Nobody saw the beauty and mystique of being a pioneer in Downtown East," Cramer recalls. "I think it was more a thought of 'Build it and they will come.' That just never materialized."

Green for the green

The Downtown East redevelopment has been almost universally embraced by business leaders and civic boosters. It's been more than a decade since any new office towers were built in downtown Minneapolis.

But former Minneapolis City Council President Paul Ostrow isn't throwing any confetti. In December Ostrow, along with co-plaintiffs Stephanie Woodruff and Dan Cohen, sued the city, raising questions about the city's role in financing the deal. Minneapolis is issuing \$57.6 million in general obligation bonds for the parking ramp and the urban park. Ostrow and company dropped their suit in January when faced with an order to post a \$10 million bond. But questions raised by the lawsuit still linger.

The original plan outlined by the city called for it to own and operate the park, sometimes referred to as "the Yard." In a December order, Hennepin County Judge Mel Dickstein denied the injunction sought to stall the project, but did agree with plaintiffs that the city charter reserves the operational/oversight role for the Minneapolis Park and Recreation Board.

The city has earmarked \$20 million for the acquisition of the park site and improvements for a basic, no-frills park. The current *Star Tribune* headquarters stands on the land that will become the park, which will stretch over nearly two blocks bordered by Park



1 MILLION SQUARE FEET
Office space in Wells Fargo towers

Will Wells Fargo Empty Other Office Buildings?

► The street talk among commercial real estate brokers in downtown Minneapolis is that Wells Fargo will move out of Class B buildings like Northstar Center and Baker Center, two older properties near the heart of downtown where it has a large presence.

A recent market report from Cushman & Wakefield/NorthMarq speculates that Wells Fargo could ultimately vacate up to **900,000 square feet** of space in other multi-tenant buildings. That creates more big holes to be filled in a market that's still seeing high office vacancy rates.

Cushman & Wakefield/NorthMarq reported a vacancy rate of 17.4 percent for downtown Minneapolis at the end of 2013. The firm's market numbers show **roughly 4.6 million square feet of vacant office space in downtown Minneapolis**. Despite a gradual and continuing recovery, office tenants actually shed space in downtown Minneapolis during 2013, leasing about **55,000 fewer square feet** at the end of the 2013 than at the beginning of the year.

Other planned office developments in downtown will create the same issue. Minnetonka-based Opus Development Co. will build a new **222,000-square-foot office building** on Nicollet Mall to be fully leased by Xcel Energy Inc. Bloomington-based United Properties is overhauling the former Neiman Marcus store downtown for Houston-based CenterPoint Energy Inc., which will move its Minnesota headquarters there. In both cases, Xcel and CenterPoint will vacate other space in downtown Minneapolis.

Avenue, Fourth Street South, Fifth Street South and Fifth Avenue South. (The *Star Tribune* building will be razed.) Ryan plans to build one of the apartment buildings at the western edge of the park site, creating a buffer between the new project and the county jail across the street.

But there's no source of money yet identified for ongoing operations or amenities, and it remains to be seen who will operate the park.

"[The city] has no way to maintain this park," says Ostrow. "They have no idea how they're going to pay for it."

"There are still details we need to work out," concedes Lutz. "We do not have those pieces totally nailed down, but we will."

Other than noting that discussions continue, a spokeswoman for Park Board declined comment.

"For whatever reason there was a political imperative to get a big development deal done, and failure was not an option. It wasn't in anyone's political interest to really question this deal," Ostrow says. "Ryan and the *Star Tribune* negotiated their land deal in the context of the city's subsidy for the project."

Rybak bristles at the term "subsidy" and notes the city worked to assemble a deal without tax increment financing. "There really is not city money in this. This is a financing deal, not a funding deal," Rybak says of the complicated deal. "We're basically acting like a bank."

Ostrow notes that for all of the attention focused on the deal, it's not clear if Wells Fargo is adding any jobs, or simply consolidating employees from other locations.

In fact, he says, "there are no new jobs being created by this development."

"We haven't made any final decisions [about] which team members will go into the site," says Wells Fargo's Kvamme. "We have potential growth between now and the time that the buildings open."

In late February, Wells Fargo announced 700 layoffs across the country, including about 200 jobs in the Twin Cities. Wells Fargo spokeswoman Peggy Gunn says the job cuts would have no impact on the Downtown East plan.

Could the deal have been done without city financing help?

"No, it probably could not have gone forward," Ryan's Collins allows. "It could not have proceeded. The city is a highly credit-worthy borrower that was willing to use general obligation bonds because it was confident in the stream of revenues that would repay those bonds."

More development to come

To those who wanted something less grandiose, Collins says a small plan would have been a tough sell in Downtown East. He argues that the scale of Ryan's project makes it a game-changer for Minneapolis.

"It would have been very difficult for any developer to redevelop a half of a block or a quarter of a block or even one block at a time," Collins confirms. "We felt we needed to make a bold stroke."

Despite the scale of the \$400 million project, Ryan isn't done in the area. The company owns two parcels of about 50,000 square

feet each on the northern side of the Wells Fargo towers sites, for future development. "We don't yet have a definitive plan for the north development parcels," Collins says.

Ryan is also competing to win the air rights above the MSEA parking ramp. Ryan and development partners are pitching a \$101 million plan that calls for a 150-room Radisson Red hotel and a 200-unit apartment project as part of a 27-story tower.

Golden Valley-based Mortenson Development has a competing proposal for a \$63 million, 300-room Marriott-affiliated hotel on the site. The City of Minneapolis is expected to select a developer by late March.

If Ryan prevails, the scale of its Downtown East project will grow to approximately half a billion dollars. Collins says Ryan Cos. does not own any other land or hold options to buy other sites in the area.

The family of Vikings owner Zygi Wilf owns a couple of small parcels of property just north of the stadium site. "We're very excited about the Ryan project and what it's going to mean to that part of town, combined with the stadium," says Lester Bagley, vice president of public affairs and stadium development for the Minnesota Vikings.

"They do own some property, but we do not have any immediate plans for it," Bagley says. "Right now it's parking."

As for the remaining surface parking lots in Downtown East, "[they] will gradually turn over into development projects," says Lutz of CPED (see map, page 32).

\$20 MILLION
City budget for no-frills urban park



"Our project will provide a connection to the core," Collins says. "But perhaps more importantly, our project will serve as a catalyst for continued redevelopment of that area. And that redevelopment will extend those connections as well."

Yet standing on a corner in Downtown East today, the whole concept seems difficult to fully grasp. Who would gaze upon this long-neglected field of surface parking populated by the occasional wandering newspaper reporter and see office buildings, apartments, a city park and maybe a hotel? Who would believe that this no man's land could be remade into a bustling new downtown district anchored by a Fortune 500 corporate campus?

"You need to understand," Collins says, "that developers are born optimists."

Rybak once worked in the *Star Tribune* building as a reporter and he recalls the lack of credible development plans for the surrounding area.

"I remember writing about this in the early '80s when there were five-block redevelopment plans. But we would all roll our eyes and say 'This is never going to happen because there's no user that's coming in here,'" he remembers. "And had this not clicked right now, I'm not sure when one would come." TCB

Burl Gilyard is senior writer at TCB.



"They did not want to see significant development in Downtown East. Chuck Lutz, City of Minneapolis, on the city's early 1980s planning priorities"

There's more at tcbmag.com, including a closer look at the *Star Tribune's* land transaction and its impending move from Downtown East.

180-200

Apartments in Ryan's Downtown East project

