



Metro Transit

Innovative Financing Strategies for
Blue Line Extension TOD

Task 2: Financing Strategies for TOD Projects

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Introduction

As part of the FTA TOD Pilot Program Grant for the Blue Line Extension/Bottineau Corridor, Metro Transit commissioned a study to identify financing tools available for TOD and explore their use along the Bottineau Corridor. This report is one component, Task 2, of the study and provides recommendations on tools and strategies to finance TOD-related infrastructure and development costs for specific project types. The information provided within this task incorporates data gathered from the updated TOD funding guide (Task 1 of the study), Housing Gaps Analysis, Commercial Market Analysis and Community Feedback Surveys (previous work completed outside of this study), individual City projects (Task 3 of the study) and commercial affordability (Task 4 of the study). This is in addition to information gathered from researching national TOD concepts and projects. In certain instances, our region has financing tools currently available to successfully achieve development of these projects. In other cases, it would require changes or additions to current law that would allow the tools to fit the needs of TOD.

The potential funding sources discussed are grouped by the following general types of projects:

1. Infrastructure project financing strategies with focus on bicycle and pedestrian projects
2. Real Estate
 - Housing, especially affordable housing, development (new and rehabilitation)
 - Commercial and retail projects (new and redevelopment)
 - Mixed use projects that have corridor-wide potential
3. Strategic site acquisition strategies to use for all types of developments

TOD Benefits

TOD infrastructure investments and the real estate development opportunities they facilitate can benefit the environment, the economy, and public health by providing opportunities for people to walk, bicycle, or take transit to and from work, home, shopping and other essential trips. TOD may also reduce pollution and benefit from proximity to affordable transportation options. In many instances TOD infrastructure and real estate development may not be feasible without multiple funding sources and innovative financing strategies because it requires upfront investment that cannot solely be supported by the private market.

TOD is thought to improve regional mobility for those who live or work in the area near a transit station area. It also benefits drivers by removing trips from the road network. The mix of commercial and residential uses, enhanced pedestrian realm and streetscapes, and reduced traffic congestion improve quality of life in transit-oriented neighborhoods. Including affordable housing in TOD offers these benefits to lower-income households who need them most; transportation expenses can be a significant proportion of household expenditures. Neighborhoods that are walkable and have access to transit and a variety of stores and services are “location efficient,” and location efficiency correlates strongly with household transportation spending. The goal is to enable workers in households at all income levels to reach their job locations without long, expensive commutes to help promote regional economic prosperity.

TOD Infrastructure Context

Transit corridors connect several transit station areas that often have very different development patterns and market strengths, ranging from downtowns and other urban districts that already have high-density residential, office, and retail development to suburban neighborhoods that typically have spread-out, single-use development. The infrastructure needs of a station area depend on its development context, as well as factors that include capacity of existing infrastructure and the planned increase in development opportunities. In some of the planned future station areas, the existing street network, sidewalks, and other infrastructure have been designed to serve sprawled development that requires car usage.

To achieve the benefits of TOD in these areas, the public sector and/or developers will need to provide new or improved pedestrian and bicycle facilities, roads, utilities, and public open space to link residents and workers to transit and support the increased population that higher-density development will bring. Some of the communities have already included these plans in the station area plans. For certain locations, expensive structured parking facilities might be required to accommodate park-and-ride commuters, allowing development to occur near transit stations on land that might otherwise be occupied by surface parking lots. In more densely populated, urban districts, new development might require improving

infrastructure capacity, while TOD in previously undeveloped “greenfield” areas might involve significant investments in new infrastructure systems and community facilities. Not every station area needs a full array of improvements, but they can instead act as a unit along the corridor providing in sum, the opportunities that the compliment of neighborhoods need.

Successful TOD can also require public-sector help with acquiring and assembling land from multiple owners, affordable housing development, and other activities that make TOD possible. While analyzing certain types of projects that could be financed along the corridor, we are providing consideration for the following:

- Types of infrastructure needed by TOD projects
- Types of funding mechanisms and strategies that are available.
- How various types of projects are benefited by TOD.

Financing Observations

Financing issues that are common for many TOD projects include challenges of financing commercial (typically retail) components, either as standalone or mixed-use, and infrastructure costs, including parking, pedestrian and bicycle access.

- **Commercial/Retail Component Financing:** including retail space is often an important feature in a TOD project, with goals of reducing car use, providing community resources and benefits and supporting sustainable communities. For many projects that include commercial/retail components, as desired by the community and in some cases also the private investor, market rents generally do not support the upfront construction costs and operating expenses that allow it to be feasible.
- **Infrastructure Financing:** A common extraordinary cost for most TOD projects. The infrastructure needs vary based on location of station areas between suburban and urban districts and can range from utilities, roads, bicycle paths, walkways and sidewalks, to structured parking that may include underground parking to maximize density and multilevel structures for park-and-ride locations.

Return on Public Investment

Analysis of TOD projects has been done around the country and regionally to illustrate that TOD can provide a return on investment through economic development, or value capture, which is the potential to capture increased property values for the purpose of funding transit. The value capture concept harnesses a portion of the value that transit confers to surrounding properties to fund transit infrastructure or related improvements in TOD station areas and corridors¹.

There are four primary value capture types for transit-oriented development with secondary value capture methods that may include naming rights and mobility fees:

1. **Developer Fees & Exactions** Fees that are assessed on new development within a jurisdiction, used to defray the cost of extending public services to the development sites.
2. **Special Assessments & Taxes** assessed on parcels identified as receiving a direct and unique benefit as a result of a public project.
3. **Tax increment Financing** authorized by a special provision in state law that allows the diversion of the property tax increment derived from the increase in property values over a base year to a fund used to pay off capital bonds for public improvements within a TIF district.
4. **Joint Development & Public-Private Partnerships** which is a cooperative agreement between a public agency and private developer/owners to build, typically, a large-scale mixed-use development project on land that has been purchased by a transit agency.

While some identified financing strategies may be specific for a certain type of project, many of the strategies could be applicable to multiple types of projects and used in a layering effect to meet several needs.

¹ <https://planfortransit.com/wp-content/uploads/2019/07/TOD-Value-Capture.pdf>

Types of Projects

1. Bicycle and Pedestrian Infrastructure

TOD infrastructure like transit facilities, sidewalks, and utilities can provide significant public benefits and health improvements by reducing vehicle emissions. However, infrastructure and related investments can be costly to construct and often do not generate any revenues to offset those costs. Services like parking, water, and wastewater systems are able to generate revenue for operations and maintenance from charges and fees. Collecting fees at a high enough level to support the new capital investments can be challenging and not always feasible. It requires analysis and planning to determine revenues will be sufficient. TOD infrastructure is often a necessary component that allows a location to be attractive for developers, residents, and workers.

Providing TOD infrastructure can be further complicated by the number of entities involved. It is typically the role of local governments to provide streets and roads, bicycle and pedestrian paths, public parking, public open space, and utilities. When possible, communities will work to shift some or all of this cost to private investors. Transit agencies can also play an important role through the construction of maintenance of transit stations, parking, bicycle and pedestrian and through the formation of partnerships to facilitate development of agency-owned land. Regional transportation planning organizations, states, and federal government also play a role by providing funding sources that can be used to finance infrastructure and establishing governing rules for use of funds.

The challenges of funding and financing TOD infrastructure result in the need for innovation and creativity in identifying appropriate funding and financing tools and combining those tools into comprehensive strategies. The purpose of this section is to identify potential tools and strategies that local governments and developers could consider using to finance infrastructure costs that is required to attract and support TOD. The strategies are often occurring in partnership with transit agencies and regional, state, and federal government. Some of these tools and strategies may have been used in other context and could be applied to TOD infrastructure projects.

The Bottineau Community Works Infrastructure advance planning effort² provided, among other things, a summary of the research related to Shared Mobility Feasibility and defined how shared mobility can increase connectivity to key destinations from LRT stations along the METRO Blue Line extension.

Shared Mobility/Shared Mobility Hubs

Shared Mobility is defined as short-term transportation solutions that enable users to access various shared vehicles, bicycles, or other low speed modes of transportation. Shared mobility can have a positive impact on communities through enhancement of transportation accessibility, increased mobility, reduction in vehicle ownership, and opportunities to provide new ways residents are able to access goods and services. Several trends may impact the growth and mainstreaming of shared mobility. Share Mobility Hubs are defined as transportation centers that seamlessly connect different modes of travel, such as:

- Walking
- Biking
- Bikeshare
- Carshare
- On-Demand rideshare services
- Vanpool
- Microtransit
- Taxi
- Autonomous Vehicles

Shared Mobility Hub Features

Shared Mobility Hub features include transit, pedestrian, bike and motorized amenities, and technology. Ideally, these features are located together within a mobility hub to provide seamless connection between modes. The following provides a brief description of these Shared Mobility Hub features.

² Outcomes of the Bottineau Community Works advance planning efforts can be found at <https://www.hennepin.us/residents/transportation/bottineau-community-works>.

Transit Amenities

Transit Amenities are in the immediate transit station area and provide a safe and comfortable space for passengers to wait for transit or shared mobility ride. Safe connections are provided between a transit stop and the adjacent mobility network (bikeshare, etc.) along with fare payment and interactive trip planning kiosks, real-time arrival information and designated curb space for use by a wide variety of shared mode services.

Pedestrian Amenities

Pedestrian Amenities are located within a one-mile walkshed around a transit station and include wide sidewalks with landscaping and lighting, and crossing with signal timing, curb extensions and pedestrian beacon.

Bike Amenities

Bike Amenities are located within a three-mile bike shed around a transit station and include bikeways, bike parking, and bikeshare. Bikeways encourage cycling to, from, and within a mobility hub, are safe and comfortable for all ages and abilities, and provide access to transit and other nearby destinations (work, shopping, recreation). Bike parking options are highly visible, secure and convenient. Bikeshare provides convenient, affordable, on-demand access to bikes, and is attractive to those who rather not own a bike. Bikeshare can be subsidized for students and lower income populations. There is also potential for joint transit-bikeshare passes.

Motorized Service Amenities

Motorized Service Amenities include carshare, on-demand rideshare and microtransit. Carshare provides access to vehicles 24 hours per day/seven days a week with dedicated parking for carshare vehicles at transit stations. On-demand rideshare (Uber/Lyft, etc.) allows a rider to request a ride in real-time, or prescheduled, using a mobile app. There can be partnerships with local governments, transit agencies and employers to sponsor rides that connect employees from transit to work. There should be designated on-demand pick-up/drop-off areas with wayfinding at transit stations. Microtransit targets peak period commute travel with on-demand service for small groups of people.

In addition to the information provided in the Infrastructure Advance Planning Study are the results of the community survey that was completed by the Bottineau Corridor Community Works. A summary of the feedback related to infrastructure needs is outlined below:

- 1. Bike PED Connection**
 - a. Don't overbuild just promote usage
- 2. Pedestrian Safety**
 - a. Crosswalks and Intersections
 - i. Certain intersections are hard to cross-
 - ii. Implement safe shared traffic engineering
- 3. Station Area**
 - a. Safe walking paths around LRT. Many low-income people using LRT
- 4. Prioritize Pedestrians Sidewalks**
 - a. Sidewalks followed by bike path
 - b. Need sidewalks in good condition for non-driving people
 - c. Improve Walkability
- 5. Bicycles**
 - a. Biking takes longer than it should due to no safe or direct routes
 - b. No direct connection for all routes
 - c. Dedicated Bike Routes
 - d. Nice ride area
 - e. Bike Storage
- 6. Specific Bike Routes**
 - a. Can't go down Broadway
 - b. Bike lanes not maintained in winter
 - c. Bicycles need to obey traffic rules
 - d. Increase bike connection to local destinations

Funding Strategies for Bicycle, Pedestrian, and Shared Mobility Infrastructure Projects

Funding necessary infrastructure projects that facilitates TOD can be challenging as most do not generate any significant revenue that could be used to support the upfront capital costs. The approach to financing infrastructure projects is generally different as compared to real estate projects that produce income to finance costs. The strategies to finance infrastructure improvements may be standalone options if funding sources have been identified and are available. But more often they are used in conjunction with financing of the primary project in which the project may benefit from the additional improvements, thus providing an additional revenue source that could be used to support the infrastructure improvements.

Sites adjacent to transit stations may experience significant infrastructure issues due to its previous use and may include industrial, commercial or other uses. It is observed these costs are not able to be supported solely through financing of a new project. The following is a general listing of funding sources and programs that could be used to finance infrastructure projects.

Infrastructure Projects

Debt tools, including private debt, bond financing, and federal and state infrastructure debt mechanisms.

Local governments can access credit through private financial institutions, the bond market, or other, specialized mechanisms that the federal government and states have established for financing particular types of infrastructure. Because bicycle, pedestrian, and shared mobility infrastructure are not revenue producers, the debt tools available for these costs would need to be funded by unrelated revenue sources such as general revenue that could include property taxes or other available fees or taxes. In certain case, tax abatement or tax increment revenues (value capture tools as further described below) could be used as a revenue source. For the most part, however, debt tools would need to match statutory authority to issue with the intended repayment source. Minnesota generally requires authorization by election or reliance on a revenue source (such as sales tax or tax abatement) for at least a portion of the repayment stream in order to issue general obligation backed bonds for bike or pedestrian infrastructure.

Equity, including public-private partnerships and infrastructure investment funds.

Equity tools allow private entities to invest (i.e., take an ownership stake) in infrastructure in expectation of a return on that investment. Unless the public sector is willing to directly pay the private investor for the financing, construction, operation and maintenances related to the facilities, equity sources are typically available only for infrastructure that generates a significant return, such as parking facilities, utilities, toll roads, or airports. The availability of equity is not typically tied to the strength of the local real estate market unless the potential revenue source is linked to real estate values.

Value capture, including tax increment and tax abatement financing, developer fees and exactions, special districts, and joint development.

Value capture financing tools capture a portion of the increased value resulting from new development or redevelopment projects. Value capture mechanisms are typically established by local governments in accordance with applicable state laws. Value capture tools can include the creation of a new assessment, tax, or fee (such as a development impact fee or special tax); the redirection of new revenues resulting from increased values (tax increment and tax abatement financing); or a revenue-sharing agreement that allows a government agency to share some of the revenue generated by developing publicly owned land (joint development). Value capture tools are generally more successful and create additional revenues in stronger real estate markets since they tend to depend on new development or property value appreciation that generate the revenue. Value capture mechanisms can be used for either pay-as-you-go improvements or finance upfront costs through the issuance of revenue bonds, subject to availability of revenues and political will of the local government. Although state law usually defines how and where these mechanisms can be used, they are typically not confined to revenue-generating infrastructure and can be used to fund all types of TOD infrastructure, including pedestrian, bicycle and shared mobility improvements, utilities, roads, and parking facilities.

Grants and other philanthropic sources, including federal transportation and community and economic development grants, as well as foundation grants and investments. Grants are available funds that do not need to be paid back and are typically provided by a higher level of government to a lower level of government (federal government to states or local entities or from states to local governments) or by a philanthropic entity. Federal grants may be common tools applied to TOD projects, including infrastructure, and transportation, as well as philanthropic investments in TOD. Some states also

provide grant opportunities that can be used for TOD infrastructure. With the exception of grants that focus on addressing poverty or other conditions related to weak markets, grants do not usually depend on local market strength.

Sample Infrastructure Projects

Project #1

The Department of Planning and Economic Development (PED) of the City of Saint Paul prepared the Central Corridor Improvement Plan for financing of public improvements related to the Light Rail Transit (LRT) redevelopment and improvement efforts along the Green Line LRT. The estimated cost of the improvements was approximately \$64-\$158 million for all phases. Identified project costs prior to construction of the Green Line were to include public improvements, acquisition, demolition, parking improvements and programs to mitigate lost parking. Improvements post-LRT construction included public improvements, affordable housing and mitigation of lost parking. The Light Rail Project occupied one of the most urbanized and diverse communities within the Twin Cities and removed parking for many commercial establishments. The City developed a financing plan that incorporated available funding sources to align with estimated project costs and timing needs for construction of public improvements and other related costs. The primary funding source for the improvements were existing tax increment revenues with some spending restrictions. This required special legislation to eliminate restrictions and allow for use of funds for the project. The City was able to proceed with the required public improvements using the available revenues.

Project #2

The value capture strategy enables BART to use new real estate investment to finance infrastructure near the area where the development will occur. A 2019 study³ reviewed the impact of BART's Warm Springs station on single-family and condominium/townhome properties within 2 miles of the station to determine the economic benefit of their proximity to transit and to estimate what proportion of the cost of the transit improvements could be supported by value capture. The study determined that single-family homes within 2 miles of the station increased in value by 9% to 15% during a specified period of time. The study concluded that value capture can provide funds needed for transit or related infrastructure but if available, is also a local funding tool that can be used to direct fund transit costs or necessary adjacent improvements.

BART's TOD Program negotiates ongoing ground lease revenue and long-term transit benefit fees from its developments which is then used to maintain and improve service. The TOD Program has leveraged over \$275 million in public infrastructure such as station improvements, police facilities and parking garages and recent amendments clarify expectations for affordable housing.

³ Project 1714, May 2019 "Value Capture to Fund Public Transportation: The Impact of Warm Springs BART Station on the Value of Neighboring Residential Properties in Fremont, CA" by Shishir Mathur, Ph.D. with San José State University and Mineta Transportation Institute

2. Housing

Subject to market conditions, housing finance can be challenging without multiple sources of funds or public finance assistance. Without additional funding and/or public subsidies, developers are typically unable to build housing that is affordable to low-income families. Lenders loan money for housing development based on the property's expected income, and when rents and home prices are set to affordable levels, there can be a gap between the cost of constructing the project and the resulting income necessary to satisfy lenders and investors. In certain cases, and markets, construction of mixed income and market rate housing can also be challenging and infeasible unless the right funding tools are in place.

The information provided below is from the Housing Gap Analysis⁴ that was completed in 2018. While there continues to be a need for affordable housing, certain markets along the corridor also show a need for mixed-income and market rate housing, subject to location and type of development.

The Housing Gap Analysis considered housing prescriptions distributed throughout the corridor instead of within a given station area and made the following observations:

1. Housing age

Age and supply of housing suggests a need for new multifamily housing along the Bottineau corridor. This is generally true at every station area as there has been little new multifamily housing constructed over the last 30 years. Multifamily development is particularly limited in the 93rd Avenue, 85th Avenue, and the Golden Valley Road station areas. There is also strong need for newer multifamily housing to complement older apartment stock and would apply to Brooklyn Boulevard and 63rd Avenue station areas in Brooklyn Park and Minneapolis station areas.

2. Housing maintenance

Maintaining the quality, condition, and marketability of the existing housing stock reduces the pressure to build new housing needed to replace obsolete or uninhabitable housing. Moreover, community input suggests that there are significant management and maintenance issues with the existing rental housing. This is true of both multifamily and single-family rental housing, and it suggests:

1. Continued attention to oversight through rental licensing and other approaches
2. Support for capital investment in the existing housing stock
3. Programs to help educate and support landlords for management of properties with tenants of diverse needs, such as aging residents, non-English speakers, families with young children, new arrivals unaccustomed to a cold climate, etc.
4. Programs to help educate and support landlords new to renting and unfamiliar with the rights afforded to both owners and renters, especially in terms of maintenance responsibilities

3. Housing affordability

Gaps in existing housing stock and household needs suggests demand for a variety of housing types.

1. New market rate and upscale rental housing is limited in many station areas. High quality market-rate apartments and townhomes would fill gaps in the housing stock at every station.
2. The station areas are desirable locations for affordable housing as they would offer residents access to jobs across the metro without needing a car. New affordable housing would add diversity in the available housing stock in the more affluent parts and meet the needs of existing households, reduce cost burdens or offer an improvement in quality and property management for existing households.

4. Workforce housing

There is a need for housing at the employment nodes of Oak Grove Parkway, 93rd Avenue, and 85th Avenue, and at the retail hubs at Bass Lake Road and Brooklyn Boulevard. Housing for workers in these locations can be both market rate and income restricted.

5. Household age

Demographic trends suggest that there will be an ongoing need for a range of senior housing options throughout the corridor. The one exception is the Robbinsdale station area, which accounts for roughly one-third of all the age-restricted housing within a mile of the corridor. In all the other station areas, senior housing would fill an

⁴ "Station Area Housing Gaps Analysis" by Bottineau Community Works with Perkins + Will, Tangible Consulting Service, and Swanson Haskamp Consulting and Planning, June 28, 2018 (<https://www.hennepin.us/-/media/hennepinus/your-government/projects-initiatives/FTA-Task-3-Bottineau-Corridor-Housing-Gaps-Analysis.ashx>).

existing gap and any growing gaps due to an aging population. In particular, there is a strong need for housing that provides assistance, such as assisted living and memory care services. Currently, less than one-quarter of the age-restricted units in the corridor have such types of assistance. For more independent seniors, the best locations will offer other amenities, such as close proximity to walking trails and shopping. Therefore, it may be particularly appropriate at 85th Avenue, Bass Lake Road, Golden Valley Road, or Van White Boulevard station areas (if developed as a mixed-use node).

6. Unit type

Analysis of bedroom counts and unit types combined with comments from community stakeholders revealed there is a gap between the number of rental units with three or more bedrooms and the correlating number of households with children. Most large rental properties are dominated by one- and two-bedroom units. When these projects were built, the traditional target market for these properties was young singles living alone or with a roommate or older households that have downsized from a single-family home. As a result, households with children that have been unable to afford homeownership have had very limited housing options. Every station area has this housing gap. It is a need observed throughout the corridor and region.

7. Medium density structures

Duplexes, triplexes, and many types of townhome product are a good way to achieve TOD densities without significantly changing the character of a station area. Furthermore, these product types can often be delivered as a more affordable option to traditional single-family product because they use less land yet retain some of the attributes often desired in single-family homes, such as private entry, space for a patio or garden, and larger unit sizes (i.e., three or more bedrooms). These types of units can also be a complement to larger mixed-use developments where distances beyond ¼ or ½-mile from the station may make them more feasible. This would be especially relevant in stations such as Oak Grove Parkway and Bass Lake Road.

In addition to the information provided in Housing Gap Analysis are the results of the community survey that was completed by the Bottineau Corridor Community Works. A summary of the feedback related to housing is outlined below:

1. Affordable Housing

- a. Needed in station areas
- b. Affordable and spacious senior citizens housing-55+ with exercise facility
- c. Crystal and Robbinsdale have over 90% affordable housing, and need more market rate housing and mixed use to attract a more diverse community and more businesses
- d. Affordable apartments didn't make the cut because there's grouping and with grouping crime goes up
- e. Affordable Rent Control
- f. Lao Priority-Want to stay in their community, Keep housing affordable and close to amenities
- g. Housing affordability depending on family income
- h. Providing more affordable housing where people can walk or bike to public transit
- i. New Apartments at Bottineau are market rate housing
- j. Maintain affordable housing but recognize that families move out if they can't upgrade
- k. Need different varieties of affordable housing
- l. Repairing and preserving existing housing

2. Mixed use and Multi-Unit Housing

- a. Increasing family sized apartments where seniors can live with them
- b. Mixed use housing with stores
- c. Townhomes for Ownership
- d. Increase the availability of smaller apartments- in great moderation
- e. Millennials are great for community growth
- f. Mixed Income Housing
- g. More market rate, upscale housing
- h. Require off-street parking to minimize on street parking
- i. Needs business mix to attract new residents
- j. Renovation of existing housing or improve to multi-use building
- k. Stations are not located close to high density housing/businesses
- l. Housing for Seniors isn't enough

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- m. Joint Ownership of housing units
 - n. Create more high-end housing to achieve a better balance

3. Single Family Homes

- a. Single Family Homes-Critical
- b. Many young families moving into North Minneapolis
- c. Homeowners concerned about higher property taxes and population density
- d. Rehab and Remodel
- e. Cultural Representation (Priority)
- f. Increasing the availability to single-family homes
- g. Single family homes are great in moderation
- h. Robbinsdale has old homes with great architecture but difficult to remodel with building codes

Funding Strategies for Housing Projects

The market-rate components within neighborhood large-scale projects may perform marginally at conception and have the potential to be self-supporting over the long run as rents rise, particularly because of the positive impact of the TOD site and the characteristics of development. A component of patient financing and/or is needed to make these projects financially viable.

Affordable units may have access to additional targeted financial resources, however, the financial challenges in the corridor developments will be similar to, and perhaps aggravated beyond, the challenges faced elsewhere in the metropolitan area.

Affordable Housing Trust Fund

Housing trust funds are established by governments that include city, county and states. The funds rely on annual dedicated sources of funding that provide ongoing revenues for support of the preservation and production of affordable housing to increase opportunities for families and individuals to access decent affordable homes. Housing trust funds typically shift affordable housing funding from annual budget allocations to the commitment of dedicated public revenue. While housing trust funds may also rely upon private donations, they are not public/private partnerships.

Revolving Loan Fund

A revolving loan fund (RLF) is a gap financing tool that can be used for development and expansion of small businesses and also housing projects. Revolving loan funds need an upfront capitalization source to provide funding and become a self-replenishing pool of money that uses interest and principal repayments from existing loans to finance new ones. RLFs support local businesses and housing projects with focused types such as healthcare, minority business development, environmental cleanup and affordable or mixed-income housing.

Revolving loan funds provide a flexible source of capital that is used in combination with more conventional sources and can be a bridge between the private market financing and amount needed to finance a project. Typical eligible uses for RLF loans include operating capital, acquisition of land and buildings, new construction, facade and building renovation, landscape and property improvements.

Inclusionary Zoning

Inclusionary zoning, also known as inclusionary housing, refers to municipal and county planning ordinances that require a given share of new construction to be affordable for persons and families with low to moderate incomes. The term *inclusionary* zoning indicates that these ordinances seek to counter exclusionary zoning practices, which aim to exclude low-cost housing from a municipality through the zoning code. Inclusionary zoning programs can be mandatory or voluntary. The majority of approved ordinances are the result of local mandatory programs that require developers to include a percentage of units as affordable in new developments. Individual policy objectives provide parameters for set-aside requirements and affordability levels that are linked to incentives made available for financing these programs, such as parking reductions, density bonuses, expedited approvals, and fee waivers which, while not a direct funding source, reduce the development cost per unit of affordable housing units. Developers may also be able to make a payment in lieu of setting-aside units in certain policy instances, which can then provide direct funding for housing elsewhere in the community.

Tax Credits

A common source of affordable housing development funding is the Low-Income Housing Tax Credit (LIHTC), a federal tax credit administered by state agencies. Minnesota also awards allotments to some metro cities and allows them to administer their own program. LIHTC is a tool to support affordable housing on the development side but can result in loss of affordability when the tax benefits. Even during the tax credit period, the lowest-income household may need some form of rental assistance. A developer's ability to secure federal rental assistance can enhance the financial feasibility of a project in the development stage by assuring lenders and investors that they will have renters and those renters will be able to pay.

Additional Strategies

- Value Captured Tools
 - Tax Increment Financing
 - Tax Abatement
- Debt Financing
 - General Obligation
 - Special Assessments
 - Revenue Bonds
 - Conduit
- Loans/Grants
- HOME Investment Partnerships Program (HOME)
- Community Development Block Grant (CDBG)
- National Housing Trust Fund
- Capital Magnet Fund
- Housing rehabilitation
- Small site acquisitions
- Land banking for affordable housing
- Corridor-based Tax Increment Financing Districts
- Joint Development opportunities for affordable housing production

Sample Projects

Project #1

The City of Bloomington Housing and Redevelopment Authority (HRA) worked with a developer to acquire an existing 306-unit NOAH project. There were multiple developers interested in pursuing acquisition of the project and not all proposals would result in maintaining the units as affordable but would instead convert the project to market rate following substantial rehabilitation. The HRA has established an affordable housing trust fund and revolving loan fund as a strategy to implement the construction and rehabilitation of affordable housing to meet growing needs of the community. Tax increment financing, HRA funds, loan repayments and other philanthropic sources are planned funding sources to enhance the fund. The cited project had a significant upfront funding gap and a loan from the City's affordable housing trust fund was applied to the project to assist with financing a portion of the gap. The loan will be repaid as the project is stabilized following rehabilitation of the NOAH units. The developer is also planning to construct additional affordable units that will complement the existing project.

Project #2

The Urban Land Conservancy, Enterprise Community Partners, the City and County of Denver, and several other investors established what they believe to be the first affordable housing TOD acquisition fund in the country in 2010. The fund was meant to assist in the acquisition of land or property needed to create or preserve affordable housing located near mass transit and was originally funded by federal Community Development Block Grant dollars and supplemented by capital from private and philanthropic sources. In 2014, the fund was expanded region wide and funding was increased. A principal driver was that affordable transit is only valuable to those that most need it if affordable housing is accessible nearby.

As of the end of 2019, the Fund has made 17 loans providing \$34 million in property acquisition dollars, creating or preserving over 1,450 affordable homes near public transit.⁵ Although many cities and regions are also interested in creating their own TOD funds, staff who manage the fund in Denver recommend that before thinking about a fund and financing strategies, municipalities should engage their residents and identify the core problem TOD is meant to solve. Is it to increase transit ridership, expand the availability of affordable housing, or support dense commercial development in proximity to public transit? Denver strikes a balance between regulating developers and preserving and developing affordable housing in a high-growth market. For example, the fund encourages rather than requires affordable housing development, allowing developers to access state and local affordable housing tax credits on projects, in addition to the low-income housing tax credits, but not penalizing developers that do not include affordable units. In addition, the fund is not bound by the traditionally longer loan approval process or credit committees of banks or traditional lenders which allows nonprofit borrowers to access loans faster.

⁵ City of Denver website, <https://www.denvergov.org/content/denvergov/en/housing-information/news/2019/Transit-Oriented-Development-Fund-Extension.html>

3. Commercial and Retail

Commercial businesses are challenged with the balancing of operating revenues and expenditures. Small businesses, in particular, operate with narrow margins and are susceptible to continually changing conditions. Minor adjustments to revenues (decrease) or costs (increase) could result in failure for a small business due to the thin operating margins. Rent is a significant component of total operating costs for businesses and any rent increases not accompanied by corresponding sales increases can impact the success of a small business.

Commercial, retail and small business sustainability are not simply prone to increasing rent levels but additional factors that may include.

- Adaptions to changing customer expectations
- Management of cost increases associated with doing business
- Building financial stability
- Ability to access affordable debt and equity

Funding strategies for commercial and retail projects should consider incorporating the creation of long-term, sustainable financial and community support for businesses that may be at higher risk of being impacted by market condition adjustments and TOD projects. The focus on success for commercial and retail projects may include the following:

- Increase the economic vitality of neighborhoods
- Enhance viability of existing business
- Reduce displacement of existing businesses
- Create opportunities for emerging businesses to succeed
- Activate ground-level public realm of pedestrian-oriented neighborhoods
- Provide space for business incubation

Commercial affordability can impact businesses in multiple ways. Environmental and financial pressures can impact existing and emerging businesses which can contribute to the displacement of those already established. Businesses may experience high rent prices for commercial space, available spaces that may not fit their needs, low vacancy rates for the right space, inequitable access to financing and capital needs, and the environmental pressures related to TOD commercial projects. This can result in a complicated area for the commercial sector to navigate.

The previously commissioned Commercial Market Analysis report⁶ indicate there are three station areas with important existing retail areas:

Robbinsdale Station Area. A downtown retail environment with pedestrian scale streets and commercial buildings including a mixture of retailers that attract local customers as well customers from throughout the region.

Bass Lake Road Station Area. A post-war, auto-oriented retail district that primarily serves local residents from nearby neighborhoods. It is anchored by large retailers, such as Target and Marshalls, and complemented by mostly national chains.

Brooklyn Boulevard Station Area. A post-war, auto-oriented retail district that is anchored by large retailers, such as Target and Cub Foods, but is complemented by a mixture of national chains as well as an emerging number of independent retailers, many of which are owned by people of color and immigrants. The national chains tend to draw customers from surrounding neighborhoods, whereas the independent retailers draw from a base of local households as well as customers from throughout the region.

⁶ "Commercial Market Analysis" by Bottineau Community Works with Perkins + Will, Tangible Consulting Service, and Swanson Haskamp Consulting and Planning, July 18, 2018 (<https://www.hennepin.us/-/media/hennepinus/residents/transportation/bottineau/commercial-market-analysis.pdf>).

In addition to the information provided in the Commercial Market Analysis are the results of the community survey that was completed by the Bottineau Corridor Community Works. A summary of the feedback related to commercial/retail is outlined below:

1. Create new Business opportunities

- a. Support creating new businesses with funding support
- b. Have the businesses that residents want and need
- c. Don't bring in franchises. Help existing businesses to expand and better themselves
- d. Help people as workers to get places to better themselves and their families
- e. Create a prospering community
- f. Should be a good mix of businesses
- g. Given tax incentives to existing small businesses to help them transition from what is now affordable to what soon become unaffordable
- h. Help city's tax base
- i. Need more business development in North Minneapolis. Including housing and commercial uses into new building development
- j. Being really strategic about the types of businesses that are attracted
- k. Parking is an issue

2. Creating affordable rental spaces for businesses

- a. Do not need more space that is affordable, instead need to mix in upscale establishments
- b. Protect the community from large businesses
- c. Improving Hubbard
- d. Have businesses residents want and need
- e. Create affordable rental space for businesses

Funding Strategies for Commercial and Retail Projects

Financing commercial and retail components within mixed-use projects, considered primarily as first floor retail can be challenging. The funding sources for residential and retail components may not always be the same or generate sufficient revenues, resulting in a funding gap. This can be especially true for projects that have affordable housing components. Additionally, rents generated by retail spaces are not always sufficient to support construction costs. A key difference between TOD projects and mixed-income residential projects near transit stations is the retail component. There is a strong need for funding sources in neighborhoods where retail may not be a well-established and economically strong use.

Commercial and retail projects are traditionally financed by the private sector. Given the risk and complexity of commercial development, especially associated with first floor occupancy in mixed-use projects, developers have typically expected higher return on investment levels. Private investors must first determine the type of financing that projects need based on liquidity, development scale, and capacity to borrow. There are at least four different avenues of financing available to commercial developers.

- 1. Bank Loans:** Bank loans typically offer lower rates than other types of loans.
- 2. Hard Money Loans (a loan secured by real property):** Interest rates are higher on hard money loans
- 3. Equity:** Financing for their commercial real estate developments without taking out a loan.
- 4. Mezzanine Loans:** Higher interest rates if they do not have a good credit history or lack experience in commercial development.

Commercial and Mixed-Use Projects

Community-owned businesses (COBs):

Community-owned businesses (COBs) are financed and owned collectively by local residents. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving a community benefit, not private gain. They are based on assets belonging to the community that can't be sold off for private financial gain, benefiting stakeholders play a leading role in the enterprise, and have a goal of remaining financially self-sustaining. COBs can provide a vehicle to fill local needs including:

- Local media
- Affordable broadband
- Fresh groceries, household goods
- Provide affordable commercial spaces and other community voids

Business Incubators

A business incubator is a nonprofit corporation that assists start-up and developing businesses by providing services and support. The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development. Business incubators reduce the financial concerns many new companies face by offering:

- Office space
- Management training
- Access to shared equipment and meeting rooms
- Networking activities
- Other ongoing business development services (legal, accounting, marketing, etc.)

Community-Land Trusts (CLTs)

A community land trust (CLT) is a nonprofit corporation that develops and stewards the following in order to balance the needs of individuals to access land and maintain security of tenure with a community's need to maintain affordability, economic diversity and local access to essential services. Examples of the types of development that may benefit from CLTs include the following:

- Affordable housing for low- and moderate-income people
- Community gardens
- Civic buildings
- Commercial spaces
- Other community assets developed on behalf of a community.

Employee-owned Cooperatives and Employee Stock Ownership Plan (ESOP)

Employee owned cooperative, also known as worker cooperatives, is a cooperative that is owned and self-managed by its workers. This control may mean a firm where every worker-owner participates in decision-making in a democratic fashion, or it may refer to one in which management is elected by every worker-owner who each have one vote. With a somewhat similar mission, the structure of an ESOP is one where stock is given to employees as part of their compensation and employees own the business.

CDFI

Community development financial institutions (CDFIs) provide credit and financial services to people and communities underserved by mainstream commercial banks and lenders. CDFIs encompass a range of nonprofit and for-profit entities including community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. The previously mentioned Denver Impact Fund is administered by a CDFI.

University and Community Partnerships

Institutions of higher education have an obvious vested interest in building strong relationships with the communities that surround their campuses. They do not have the option of relocating and thus are of necessity place-based anchors. While corporations, businesses, and residents often flee from economically depressed low-income urban and suburban edge-city neighborhoods, universities remain. At a time when foundations that help establish community-based projects are commonly unable to continue with ongoing involvement over long periods of time, universities can play an important role.

Universities are inherently an important potential institutional base for helping community-based economic development in general, and civically engaged development in particular. (See also, “Anchor Institution” below.)

Anchor Institutions

Anchor institutions are large public or nonprofit organizations that once established tend not to move location. An important part of the local economies in which they reside, they can deliberately use their economic power to strengthen their community. Indeed, in many places, these anchor institutions have surpassed traditional manufacturing corporations to become their region's leading employers. This is particularly useful in neighborhoods where there are historic and other barriers to people accessing economic opportunity. Focused, well administered programs can foster community wealth building. The largest and most numerous of such nonprofit anchors are universities and non-profit hospitals (often called "eds and meds"). Other examples of anchor institutions include museums, faith-based institutions, libraries, and locally focused philanthropies.

Social Impact Investing

Impact investments are investments made into companies, organizations, and funds with the goal of generating positive, measurable social or environmental outcomes alongside a financial return. The term “impact investing” is relatively new, becoming popular in 2007. The practice of investing for social—and not merely economic—return itself has a much longer history and includes two key approaches:

- **Socially Responsible Investments (SRIs)** are investment strategies that *individuals* employ to generate financial returns while promoting social good. The most common form of socially responsible investment involves investment portfolios designed to exclude certain companies based on explicit social and/or environmental criteria. This is known as “negative screening.” However, positive screening, investment in companies that achieve some positive social benefit, is another SRI strategy.
- **Mission-Related Investments** are investment strategies that *foundations* and *anchor institutions* use to generate financial returns as they promote mission-related goals. **Program-related investments (PRIs)** are one such strategy that has played a role in building wealth in low-income communities. Depositing money in community development financial institutions (CDFIs), such as community development credit unions or community loan funds, is another. In addition to PRIs and CDFIs, some foundations, such as the F.B. Heron Foundation, have dedicated their entire corpus in alignment with the Foundation's mission. In each asset class (such as stocks, bonds, loans, and private equity placement), Heron seeks to ensure that investment priorities align with the Foundation's social values.

Small Business Administration

The Small Business Administration is a governmental agency that ensures a percentage of the loan that is made by a local lender. These loans can be made on a real property for business use. These loans have many restrictions and usually take a long time to process but the interest rate is often lower than the current market because the government is guaranteeing a portion of the loan.

Sample Commercial and Retail Projects

Project #1

A 501(c)(3) organization owns a coffee shop that is connected with a bike repair store. The 501(c)(3) public charity operates a number of activities in the area and has a board that reflects the community. The coffee shop has a seating area and is operated by full-time employees. The bike repair shop has a full-time repair employee. The bike shop has very limited hours in the winter, but more robust hours the rest of the year.

In the summer, the bike repair shop will have two high school apprentices. The primary goal is to teach the apprentices a craft, but also help them learn about operating a business. This model could be done on a larger scale, or on a similar scale, but in multiple locations.

In this case, revenue is enhanced via the ability to raise funds through fundraising. There is also a strong community board and a close relationship with one of the churches in the neighborhood. The community board includes board members with a variety of skills that can provide “back office” support or oversight.

As a part of a larger organization, the coffee shop/bike shop is able to utilize the resources of the larger organization (bookkeeping, HR, etc.). The 501(c)(3) organization utilizes neighborhood and/or nearby resources for these services.

The business could also be a training location for minorities and low-income individuals to help them gain work skills. It could also be an entry into other work programs and/or apprenticeship programs offered by other businesses in partnership with a local community college.

NOTE: While another public charity could operate this type of business, it would also be a candidate for a minority entrepreneur or a community owned business – both of which are for-profit operations. As for-profit organizations, a variety of funding options would be available:

- Small Business Administration loans and other similar programs
- Angel investors (higher rate of return required)
- Social impact investors (lower rate of return required)
- Program Related Investments from foundation (lower rate of return required)
- Direct grants to assist in establishing the organization or employing low-income individuals

The organization could also avail itself of accounting, staffing, HR, etc. services from other neighborhood businesses and benefit from a business resource center for other types of governmental assistance. As a locally owned business, hopefully it would enjoy the patronage and support from local residents.

Project #2

One of the nation's first community land trusts to take on commercial property is Minnesota's own Rondo Community Land Trust. In place since 1993, the RCLT was known for providing affordable homeownership in Ramsey County using a ground-lease model. RCLT recognized the role commercial development plays in creating jobs, increasing wealth and building the capacity of a community and in 2009 set about developing a model to create affordable opportunities for community based commercial development in its neighborhoods. Similar to their approach to affordable housing, RCLT embraces three important principals in its approach to commercial development:

- Maintaining a permanent interest in the property to ensure long-term affordability,
- Providing support for the property and its tenants to foster success, and
- Community ownership of the space

A report released in 2017 titled "Lessons from a Commercial Community Land Trust Pilot"⁷, presents the history of the Rondo Community Land Trust and in "intended to provide insight for nonprofit organizations on the opportunities and challenges of developing affordable commercial space."

RCLT's Selby Milton Victoria project completed in 2019 provides 9,300 square feet of long-term affordable commercial space for small, local and minority owned businesses and 34 units of affordable senior housing. The project marks the bricks and mortar outcome of RCLT's new model for long-term affordable commercial space.

⁷ "Lessons from a Commercial Community Land Trust Pilot", summer 2017, prepared in partnership with Rondo Community Land Trust through the University of Minnesota's Center for Urban and Regional Affairs.

4. Mixed-Use

Many cities are increasingly focused on transit-oriented development (TOD) policies to expand the opportunities for mixed-use (commercial and residential) development near public transit stations. TOD relies on public and private investment, rezoning, and development incentives to create dense mixed-use communities near transit routes.

Benefits of Mixed-Use Projects ⁸

- They may offer cost savings to developers through shared parking arrangements and shared costs for building operation, maintenance, and security.
- Commercial rents may offset and subsidize affordable or low-income housing.
- Provide new housing opportunities in areas predominantly occupied by commercial, office, or light industrial uses.
- Accommodation of higher housing densities.
- Integration of land use planning with residential developments located near commercial and retail shopping areas.
- Reduction in traffic congestion.
- Revitalization of distressed neighborhoods through creation of community and safety.

Fundamental Challenges of Mixed-Use Projects

- Higher costs
- Large financing gaps
- Unproven market demand
- Difficulty in implementation

Mixed-use projects may experience higher per square foot costs as compared to other projects due to structured parking requirements, shared walls and firewalls between first-floor commercial and upper-floor residential units, and elevators. Mixed-use projects, including those with affordable housing may experience cost and affordability gaps associated with both the housing and commercial components. A cost gap is the difference between total development cost and amount that can be financed. Affordability gap is the difference between market rates and that rate which the project's target market can afford. As a result, many mixed-use projects require public assistance or alternate funding sources. Commercial and mixed-use projects tend to have less funding and subsidy sources available, as compared to housing. Those tools that are commonly used for housing projects are generally not applicable to projects with multiple uses (commercial and residential).

Some characteristics of successful mixed-use projects include a market that supports the needs for both housing and commercial components, experienced development teams, sites that have good visibility and access to transit and roads. It is also important to have building designs that accommodate specific needs for commercial uses, an appropriate mix of tenants and sufficient parking to support both the commercial and housing uses. Mixed use projects may also need assistance from municipalities on site assembly and financing infrastructure improvements. Successful mixed-use projects also tend to incorporate civic uses, community, public and open spaces that include libraries, banks, community centers, urban parks, and creative landscaping.

A less risky non-residential use to include in a mixed-use project would be community program space. Even though it may not produce rent or revitalize commercial corridors, the spaces generally provide benefits to the residential units of affordable and mixed-income housing projects. Space for a childcare center or office space for non-profits and sponsoring agencies may provide a consistent income stream to support financial obligations related to the commercial space, which reduces risk to the developer. Office tenants in an affordable or supportive housing development can be difficult to market, depending on the nearby availability of comparable spaces for rent. Retail or restaurant space may present the highest level of risk due to the reliance on location as a major determining factor.

Results of the community survey that was completed by the Bottineau Corridor Community Works provided the following feedback:

- a. Mixed Commercial with residential development with parking underneath

⁸ https://archives.huduser.gov/oup/conferences/presentations/hbcu/sanantonio/multifamily_development.pdf

-
- b. Combined housing and commercial development is good

Funding Strategies for Mixed-Use Projects

Financing sources for mixed-use project can be any combination of the sources that are available for its component parts. These are described in sections above and include:

- Affordable Housing Trust Fund
- Revolving Loan Fund
- Inclusionary Zoning
- Tax Credits
- Additional Strategies
 - Value Captured Tools
 - Tax Increment Financing
 - Tax Abatement
 - Debt Financing
 - General Obligation
 - Special Assessments
 - Revenue Bonds
 - Conduit
 - Loans/Grants
 - HOME Investment Partnerships Program (HOME)
 - Community Development Block Grant (CDBG)
 - National Housing Trust Fund
 - Capital Magnet Fund
 - Housing rehabilitation
 - Small site acquisitions
 - Land banking for affordable housing
 - Corridor-based Tax Increment Financing Districts
 - Joint Development opportunities for affordable housing production
- Community -owned businesses (COBs)
- Business Incubators
- Community Land Trusts (CLTs)
- Employee-owned Cooperatives and Employee Stock ownership Plan (ESOP)
- CDFI
- University and Community Partnerships
- Anchor Institution
- Social Impact Investing
- Socially Responsible Investments (SRIs)
- Mission-Relate Investments
- Small Business Administration

Sample Mixed-Use Projects

Project 1

Located within Madison's burgeoning Capitol East District, the 800 Block of East Washington Avenue is a transit-oriented redevelopment project that was completed in 2018. The site includes the "Spark" building (an 11-story office building owned by American Family Insurance), "StartingBlock Madison" (a 50,000 square foot entrepreneurship center), the Sylvie (a 2,500-capacity music venue), the Arts Literature Lab (an artist incubator), and a brewpub. The property was a vacant car dealership that the city purchased in 2008. After a multi-year planning and community engagement process, the city partnered with a local development team to construct the project. The project itself includes no on-site parking. The City worked with Madison Gas and Electric to acquire an adjacent utility storage yard to build a 650-stall parking structure that will serve the development as well as other needs in this rapidly growing area. The City financed

the parking structure with a mix of Parking Utility Reserves and Tax Increment Financing. The site is located on a primary corridor for Madison Metro bus service and along Madison's planned Bus Rapid Transit (BRT) route. The layout of the site and the strategic approach to using shared public parking to serve the development and the growing needs of the District are designed to encourage transit usage.

Project 2

The M Station apartment complex is a strategically-planned, mixed-use TOD project in Austin, Texas. M Station apartments is located two blocks from the Capital MetroRail MLK station. Foundation Communities, a nonprofit affordable housing provider, developed the M station project, which opened in 2011, a year after the station's opening. M Station serves 150 families in one, two, and three-bedroom units at different affordability levels. M Station provides supportive transitional housing to a portion of these residents and reserves 10% of units for families at risk of homelessness. On-site community and early childhood education centers offer preschool and afterschool activities. The building's family-oriented uses promote a welcoming environment within the complex. One of the factors that makes M Station an exemplar is its LEED platinum designation. Affordable housing options, smart mixed-use choices, environmental planning and LEED certification make M Station a model for future TOD projects.⁹

⁹ <http://www.njtod.org/etod-strategies/>

5. Land Acquisition

Strategic site acquisition can be an important component for TOD. If the theory is that TOD increases the value of land, it may create unaffordable options for future development and redevelopment opportunities. Having a means to assemble property from multiple property owners and acquire sites prior to construction of TOD development is an opportunity to facilitate those desired uses such as affordable housing, infrastructure improvements, mixed-use and commercial development.

Funding Strategies related to Land Acquisition

Property Acquisition Fund

This type of fund is a pool of capital created to provide low-cost site acquisition financing, usually for affordable housing and mixed income housing. Low cost financing through this fund can reduce the cost and potential risk associated with holding property while assembling financing and required approvals for TOD projects.

Land bank

Land banks are governmental entities or nonprofit corporations that focus on the conversion of vacant, abandoned, and tax delinquent properties into more productive use. These properties can be acquired through land banks and can be held tax free while clearing title and resolving any other issues that have prevented reuse. Individual statutes provide the authority to give land banks the powers that assist them with acquiring challenging properties, removing the issues and allowing for transfer to new owners for reuse that is consistent with planning principals.

Acquisition by Agreement (Contract for Deed)

Contract for deed agreements provide flexibility between the buyer and seller related to timing and other considerations. Flexibility in these agreements provide the buyer and seller with sufficient time to identify, secure and relocate to that reduces potential disturbances. Other benefits include certainty in terms of both timing and cost. The limitation is that it requires a willing seller and agreement on market terms within a reasonable timeframe.

Ground Lease

A ground lease is an agreement between the current property owner and new tenant in which the future tenant is able to gain site control and allowed to develop on the property during the term of the lease period. Following the lease period, the land and all improvements become the property of the tenant. Terms of a ground lease indicate that any constructed improvements will be owned by the property owner unless an exception is created which could stipulate that any taxes incurred during the lease period will be paid by the tenant. Ground leases are also often called land leases, as landlords lease out the land only.

Although they are used primarily in the commercial space, ground leases differ greatly from other types of commercial leases like those found in shopping complexes and office buildings. These other leases typically don't assign the lessee to take on responsibility for the unit. Instead, these tenants are charged rent in order to operate their businesses. A ground lease involves leasing land for a long-term period (typically 50 to 99 years) to a tenant that constructs a building on the property. A ground lease defines who owns the land, and who owns the building, and improvements on the property. The owner retains ownership of the property to assure its continued use for specified purposes, such as affordable housing or commercial uses. Tenants generally assume responsibility for any and all expenses related to the land and the improvements as if it belongs to them during the term of the lease.

Letters of Intent

A letter of intent is a document that is used to provide a buyer's interest in the purchase of property and includes the terms and conditions for which it would be purchased from a seller. While typically not a binding contract, it can be used as an outline or framework from which a more binding contract could be drafted. At a minimum it usually contains a clause allowing price to be determined by mutual agreement in the future, a timeline to perform due diligence on the property, an acknowledgment that it is the seller's intent to sell the property and the seller's agreement not to market the property in the interim.

Option Agreements

An option agreement is a contract between the buyer and seller to allow the right to purchase the property once certain contingencies have been met. An option contract provides a potential buyer with a secure agreement, subject to events or timing that cannot be controlled or predicted. This is why it is imperative that the agreement specifies the conditions of the sale very clearly. An option agreement allows for purchase rights at a set price, making a nonrefundable down payment on the property that may be deducted from the purchase price if the purchase is completed.

Purchase (or Sale) Contract

A purchase contract is a binding document that outlines the terms and timing for purchasing a property and lays out what has to occur to get to the scheduled closing on a parcel of property. It will allow “outs” if the property fails to meet all of the requirements during the due diligence process and specifies price and timing.

Lender Financing

Depending on its business focus, a bank may offer debt financing to support any or all of the land acquisition and development process. Despite the fact that financial institutions have become more specialized, major lenders often finance more than one phase of complex projects and one lender can finance all three phases of development. Land acquisition and development financing are often combined, each phase with its unique challenges and risks.

Land Acquisition Debt Financing.

Land acquisition for development can be difficult to finance because its value can decrease if a project fails, making it difficult to resell and risky for a lender to use as collateral. As a result, many lending institutions choose not to provide financing for raw land acquisition or may deeply discount the value of the land as collateral, which requires significant equity or other funding sources that do not require repayment.

Community-Land Trusts (CLTs)

A community land trust (CLT) is a nonprofit corporation that develops and stewards the following in order to balance the needs of individuals to access land and maintain security of tenure with a community’s need to maintain affordability, economic diversity and local access to essential services. Examples of the types of development that may benefit from CLTs include the following:

- Affordable housing for low- and moderate-income people
- Community gardens
- Civic buildings
- Commercial spaces
- Other community assets developed on behalf of a community.

Sample Land Acquisition Projects

These are under review and may change

Project #1

A coalition of public, private, and non-profit partners created the Denver Regional TOD Fund to effectively create and preserve affordable housing and community facilities near transit.

Structured as a unique blend of risk and return requirements, the fund is capitalized with \$24 million of acquisition loan capital available to qualified borrowers with a plan to preserve or create affordable housing in proximity to public transit throughout the seven-county metro Denver region. The fund’s goal is to support the creation and preservation of 2,000 affordable housing units by 2024 through strategic property acquisition in both current and future transit corridors.

The fund is designed to allow affordable housing and community developers—nonprofits, for profits, and housing authorities alike—to acquire and hold strategic transit-accessible properties for preservation or future development purposes. By providing flexible financing terms and a streamlined underwriting and closing process, the fund allows qualified borrowers to react to opportunities and compete with other potential buyers who may not have affordable housing in their plans.

Project #2

When considering approaches to acquiring land for TOD projects, communities should utilize housing trust funds, TOD acquisition funds, and non-profit land trusts. Housing trust funds and TOD acquisition funds can cover the costs of purchasing land or preserving existing housing. If available, community land trusts can serve as a bridge financier or offer long-term leases to TOD developers, potentially at discounted rates proportionate to the number of affordable housing units being developed. Discounts may range from tax benefits to a bargain sale on the land. For instance, in Minneapolis, the Twin Cities Community Land Bank works with developers, non-profits, and government to help them acquire land needed for their projects. The Land Bank will purchase land, lease it, and hold it for their partner until that group is ready to purchase the property. In 2016, the Twin Cities Land Bank offered over \$65 million in community lending activity.

One such project is Western U Plaza located adjacent to the Western Avenue Station of the Green Line and former home to Minnesota Milk Company/Old Home Foods distribution center. An affordable community development target for many years, a neighborhood development corporation had negotiated a purchase price, but time was running out and funding had not been found. The Land Bank recognized the importance of securing the site and purchased the property in 2011. This was a stretch compared to its prior investments and represented a fairly high risk, but the Land Bank saw it offset by the critical importance of the site. By stepping in, the Land Bank provided the small nonprofit developer time to partner with an experienced co-developer and obtain project financing. The result is a completed project including affordable multifamily housing, mixed use commercial and retail and the Land Bank is able to redeploy its funds into other projects.

Financing Matrix

Potential Funding Strategies	Infrastructure	Real Estate Development	Acquisition	Who/How Administration	Program in Existence
Community Owned Business		X		Philanthropic	Yes
Business Incubaor		X		Lender, Philanthropic	Yes
Community Land Trust		X	X	Government	Yes
Employee-Owned Cooperatives		X		Philanthropic	Yes
Land Banking		X		Government	Yes
Contract for Deed		X	X	Government, Investor	Yes
Letter of Intent		X	X	Government, Investor	Yes
Option Agreement		X	X	Government, Investor	Yes
Ground Lease		X		Private, Government	Yes
Anchor Institutions	X	X	X	Nonprofit	Yes
Social Impacting Investing	X	X	X	Philanthropic	Yes
Program Related Investements	X	X	X	Philanthropic	Yes
University and Community Partnerships	X	X	X	Non-profit, Philanthropic, Investor, Government	Yes

Potential Funding Strategies	Infrastructure	Real Estate Development	Acquisition	Who/How Administration	Program in Existence
Value Capture	X	X	X	Local Government, Development Authorities, Private Investors	Yes, with limitations
Fees	X	X	X	Local Government, Development Authorities, Private Investors	Yes
Debt	X	X	X	Local Government, Development Authorities, Private Investors	Yes, subject to local policy guidelines
Credit Assistance	X	X	X	Private Investors, Lenders, CDFI	Yes
Equity		X		Private Investors, Social Impact Investors	Yes
Grants	X			Federal, State, Local	Yes
Land Banking			X	Government	Yes
Housing Trust Funds		X		Local Government, Development Authorities, Private Investors	Yes
Inclusionary Zoning		X		Local Government, Development Authorities	Yes
Revolving Loans		X	X	Local Government, Development Authorities, Private Investors	Yes
HOME		X		Local Government, Development Authorities, Private Investors	Yes
CDBG		X		Local Government, Development Authorities	Yes
Tax Credits		X		State, Federal, Local Government	Yes

Funding and Implementation

The purpose of this report is to identify financing strategies that could be implemented for TOD projects that include infrastructure, real estate encompassing housing, commercial and mixed use, and site acquisition. This will allow for proper positioning of potential projects for funding. The sources will provide a basis for which project opportunities can be further analyzed for applicability, availability, and requirements and timelines for obtaining funding for specific elements of a project. Many of the strategies identified in this report are commonly used for financing of the development project types. However, if some of the strategies are collaboratively used, projects may achieve greater success with more significant impacts.

The potential funding sources described within this report will be specific to the project type. In most instances, financing of infrastructure projects will be done in conjunction with real estate development projects and require alternate funding sources. Real estate projects that include housing, commercial and mixed-use, or some combination, will ultimately be subject to market. It is important to understand real estate development or engage a third party to help as needed when choosing the role to take. A good understanding of what is being asked for, why/if it is necessary, and if project returns are reasonable for each party will protect the public from over or under subsidizing projects.

The role of who initiates the overall funding strategy is expected to vary by project. A developer will analyze each project from a private financing perspective to understand if there is a need for financial assistance and public funds resulting from TOD projects. Should there be a financing gap, it would appreciate the public sector to understand what sources may be available. The public sector's role will be to facilitate and implement the public portion of the financing plan for the project, while creating a partnership with the private investor.

Real estate development encompasses activities that range from the renovation and re-lease of existing buildings to the purchase of raw land and the sale of improved parcels. Developers are the coordinators of the activities, converting ideas on paper into real property. They create, imagine, fund, control and orchestrate the process of development from the beginning to end. Developers usually take the greatest risk in the creation or renovation of real estate—and receive the greatest rewards. They often incur expenditures to advance projects prior to the availability of outside financing. Typically, developers purchase a tract of land, determine the marketing of the property, develop the building program and design, obtain the necessary public approvals and project financing, build the structure, and lease, manage, and ultimately sell it. Developers work with many different counterparts along each step of this process, including architects, city planners, engineers, surveyors, inspectors, contractors, leasing agents, lenders and more. The strength of the formal and informal team involved in a project can be a key factor in its ability to be successful

Some communities participate directly by purchasing and holding land for development. Purchasing unused land for an undesignated potential development is a highly speculative activity. In general, land development is the most profitable but riskiest element of development as it is so dependent on the public sector for approvals and infrastructure, the market for development opportunities and it involves a long investment period with no positive cash flow. However, some communities have the capacity to tolerate land development risk, have cash flow patience and will gauge their direct involvement accordingly.

Communities should keep the concept of measurable return in mind as they approach development involvement. What is the outcome that is desired? Who will benefit? Is the benefit reasonable and does it justify the cost? What guarantees the desired outcome is achieved if an investment is made? Who assumes what risks and is the level of risk acceptable? Contractual agreements can be developed that define who will do what, pay for what, and what will happen if those things do not happen. A local government that relies on property taxes might use an increase in the market value of real estate as the primary measure of whether the project has been successfully completed. Other measurable outcomes might include job production, affordable housing units produced, or timely completion of project or phases of the project.

The benefit that a party receives from public incentives should be measured and at a reasonable level. Return on Investment (ROI) to the developer or investor is a simple performance measure to evaluate the efficiency of an investment opportunity. It is calculated by subtracting the cost of the investment from the benefits of the investment and then dividing

by the cost of the investment. The result is expressed as a ratio. A reasonable level for ROI will be different for different types of developments and developers and fluctuates over time. Understanding the dynamics that drive the calculation what a reasonable range of ROI is for the project under consideration is key in evaluating the level of assistance needed, if any.

We recommend all of these items be considered when reviewing project concepts and determining appropriate levels, if any, of public financial assistance.

Conclusion and Summary

The majority of the funding strategies identified in this section of the analysis currently exist, in some form. In certain instances, use of the tools becomes a question of public policy and practice and community desires. For example, tax increment financing is a commonly used value captured tool. However, current legislation only allows project specific uses of the tool and not corridor-wide capturing as has been used in other parts of the country. Using existing tools in greater capacity can be powerful and effective to further enhance viability of TOD projects that include infrastructure, real estate and acquisition strategies. The reader is referred to the TOD Funding Database completed as Task 1 of the overall study effort to explore a variety of funding mechanisms available ranging from community based to federal options.

There are some strategies that are specific to the types of projects, particularly for real estate like housing (affordable and mixed income), mixed-use and commercial. Other financing strategies and tools could be used for all types of projects and are more policy driven relative to application. Successful TOD projects are those that meet the needs of the community and incorporate the desired components that can be supported by the market. The Bottineau corridor runs through a diverse range of neighborhoods with needs of varying types requiring innovative use of subsets of the financing tools available. It may be found that working collaboratively on some the projects will achieve greater outcomes and need the power of all existing tools to achieve goals. There are many strategies and funding programs that become popular tools for communities to use to facilitate TOD projects. Public and private sector tend to use those that are more readily accessible and provide familiarity. It has been found that in some cases existing tools used in isolation may not be enough. As a result, communities around the country have taken the familiar tools and strategies and created alternative versions that provide more funding options. Analysis of the individual types of projects assists with aligning available resources to project needs.

For example, when considering financing of infrastructure projects, revenue streams may not be as readily available and projects may rely on financing strategies that generate revenues through taxes, assessments, fees or capturing value from existing or increased values. Real estate projects typically generate revenues; however, subject to market, may need additional funding sources to create and enhance financial feasibility. Exploring alternative options that generate additional revenues may allow such projects to move forward.

For housing projects specifically, developers can utilize Low-Income Housing Tax Credits (LIHTC) along with other available city or state trust funds dedicated to affordable and mixed income housing.¹⁰As an example, the Federal Transit Administration offers metropolitan and state grants that are distributed through Metropolitan Planning Organizations (MPOs) to encourage cities to promote dense and affordable housing near transit hubs. North Jersey Transportation Planning Authority, one of New Jersey's 3 MPOs, uses its Planning for Emerging Centers Program to provide support for municipal efforts to create sustainable, transit-supportive, and walkable communities. Communities have adopted inclusionary zoning practices that offer density bonuses to developers who make a certain percentage of their units affordable. Communities can establish tax increment financing (TIF) districts along transit corridors to allow revenue to be shared between the public and private entities facilitating development. Funds can be used to further support the costs of preserving and developing affordable housing along transportation corridors to meet community needs.

Communities can offer incentives to developers who build TODs based on the ratio of affordable units to market rate units. The City of Chicago reformed its Affordable Requirements Ordinance (ARO) in 2015 in an effort to mandate on-site affordable housing for TOD projects that receive City subsidies or a zoning change. Projects that offer less than 10% of their units as affordable housing must pay an in-lieu fee to the City to support other affordable housing sites. This ordinance encourages developers to comply with the standards in order to avoid additional fees and can ensure affordable housing is still being funded elsewhere, even if it is not being built on the proposed project site. Payments in Lieu of Taxes (PILOTS) are a financial tool that municipalities can use to help facilitate TOD development. They provide a financial certainty to the underwriting that banks look for. As the multifamily construction lending markets continue to tighten, PILOTS can be an important source to secure debt.”

¹⁰<http://www.njtod.org/etod-strategies/>

Alternatively, local laws can be passed to impose a fee on developers when they tear down affordable housing and replace it with market-rate residential or commercial development.¹¹ For instance, the Latin United Community Housing Association (LUCHA) of Chicago, IL, an affordable housing nonprofit organization, is fighting efforts to displace residents in an area near the Bloomingdale Trail (the 606), a mixed-use path that runs through the city. LUCHA attempted to get the Pilot Act for the Preservation of Affordable Housing in the 606 Residential Area signed into legislation in May 2017 to charge developers for tearing down affordable housing or when expanding existing units thereby making less affordable. While the act was not passed, it did focus discussions on affordable housing. Two additional ordinances were passed in October 2017 to increase affordable housing supply in gentrifying areas on the west and northwest sides of Chicago.

Communities wishing to support TOD should examine how existing zoning, ordinance and other regulations may be hindering development opportunities. In some cases, existing City practices are outdated with updates required to allow for modern uses as necessary to successfully support new TOD. “The ability to create viable, affordable living is connected to the ability to deliver desirable mixed-use communities that incorporate a variety of programs and uses. It is important to recognize that both retail and office trends and uses have changed, and traditional zoning must be revisited to create flexible planning guidelines that allow for today’s tenants and users. Retail has become more experiential and entertainment oriented. Health and wellness have blurred the traditional lines of medical vs. retail vs. office. Planners must allow for the fluidity and flexibility of these uses in redevelopment plan zoning.”¹²

A specific example of an update to current regulations relates to the sale of liquor. As liquor is a primary source of revenue for many businesses found in TODs, including restaurants, the process for obtaining liquor licenses should be made as direct and simple as possible. If restaurant tenants can obtain a liquor license in a reasonable amount of time, without too many hurdles, they are more likely to be attracted to and be successful in a TOD mixed-use development.

¹¹ <http://www.njtod.org/etod-strategies/>

¹² <http://www.njtod.org/etod-strategies/>



Metro Transit

Innovative Financing Strategies for
Blue Line Extension TOD

Task 4: Financing Strategies for TOD Projects

July 31, 2020

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Introduction

The purpose of this task is to identify and analyze best practices that may be available to maintain long term commercial affordability while focusing specifically on commercial project types along the Bottineau LRT corridor. It is also to assess the potential fit and viability of various models considering the assets and strengths of the corridor, its existing businesses, and local entrepreneurial communities. The report that follows provides a review of best practices and programs used to support commercial affordability that includes community land trusts, cooperatives, business incubators, community ownership, employee ownership and similar programs/policies communities around the country have incorporated.

Affordability for commercial is not as clearly defined as residential. The general rule of thumb for residential projects is rent payments no greater than 30% of household income. The commercial market is different and varies by the type of business. A general rule-of-thumb is that rent and other occupancy costs should total less than 10 percent of a business's gross sales.¹

As an example, the average hardware store in the U.S. does about \$150 in sales per square foot annually, and therefore should aim to keep its rent and other occupancy costs at no more than \$15 a square foot.² Businesses in better locations can often generate higher sales per square foot and afford higher rents. Issue can occur when a combination of speculative investment, high demand, and limited supply of space sends rents climbing faster than sales growth. Grocers and other businesses that serve the basic needs of a neighborhood are particularly vulnerable, because they often have low gross margins and therefore need to keep their occupancy costs even lower to remain viable.

We have analyzed and provided a summary of both local and national examples of models already in place and being developed for implementation as related to commercial affordability. We have also analyzed the potential fit and feasibility of applying the example programs to areas along the corridor, and, more specifically, as identified within each of the corridor city-identified project areas. Previous research work completed, including the "Commercial Market Analysis"³ and other research documents, indicates that there is a wide variation of existing commercial space and demand for additional space ranging from office, industrial, and retail. The focus of this task is on the office, retail, and business development aspects to align with the projects provided by the corridor cities as related to Task 3: Real Estate Development Technical Assistance.

There is a greater likelihood that commercial and retail projects will be impacted by market changes. Funding strategies that incorporate the creation of long-term, sustainable programs and policies is key for those types of businesses. For commercial businesses to be successful and remain sustainable in the community, the following objectives should be considered for TOD commercial projects:

- Community support for existing small businesses
- Eliminate and reduce displacement
- Create mixed use projects with ground-level public spaces
- Provide space for business incubators and entrepreneurs
- Create community space and engagement
- Enhance neighborhood economic vitality
- Long-term affordability for emerging businesses to thrive

Focus of the Commercial Affordability Analysis

The Bottineau Community Works "Commercial Market Analysis"⁴ found that much of the commercial space along the corridor is naturally affordable as compared to elsewhere in the metro. However, there

¹ <https://ilsr.org/new-action-on-commercial-affordability/>

² <https://ilsr.org/wp-content/uploads/downloads/2016/04/ILSR-AffordableSpace-FullReport.pdf>

³ <https://www.hennepin.us/-/media/hennepinus/residents/transportation/bottineau/commercial-market-analysis.pdf?la=en&hash=AB3F9340D06A60B65C24B0BDFE188D60E356087F>

⁴ <https://www.hennepin.us/-/media/hennepinus/residents/transportation/bottineau/commercial-market-analysis.pdf?la=en&hash=AB3F9340D06A60B65C24B0BDFE188D60E356087F>

are concerns that if the affordable rates increase due to construction of the Blue Line Extension, small businesses could be priced out of the market and gentrification and displacement may occur.

Commercial real estate is property used exclusively for business purposes or to provide a workspace rather than a living space. Most often, commercial real estate is leased to tenants to conduct business. This category of real estate ranges from a single gas station to a large shopping center. Commercial real estate includes retailers of all kinds, office space, hotels, strip malls, restaurants, and convenience stores. Commercial real estate provides income, as well as some capital appreciation, for investors.⁵

The “Commercial Market Analysis” identified the following types of retail along the Blue Line corridor:

- Regional Mall
- Power Center
- Community Center
- Neighborhood Center
- Strip Center

The Commercial Market Analysis identified the following types of office for consideration:

- High-Rise or Signature Building
- Low-Rise, Multi-Story Building
- Single-Story Building – Retail
- Single-Story Building – Flex

Industrial development can be an important transit destination for workers in some of the station areas but has not been identified as a future development goal within most of the City’s Station Area Plans. As a result, there is limited market analysis of industrial development along the corridor. The one exception where industrial development will be of relevance is the 93rd Avenue station area in Brooklyn Park.

Commercial Viability and Potential

Commercial affordability is based on different issues that can have an effect on commercial retail and small businesses. Environmental and financial pressures may cause displacement of existing businesses if they are not able to adapt to change or have access to resources that may provide financial assistance. Retail and small businesses may be forced to pay higher rents than they can afford or may be needed for their commercial spaces due to low supply of available spaces that fit their needs. They also may experience the inability of obtaining adequate financing and capital needs to be successful.

Commercial businesses are challenged by a balancing of revenues with correlating costs. Small businesses typically operate within small margins and can be susceptible to continually changing conditions. Relatively small decreases in revenues or increases in costs can make the difference between success or failure for a small business. Payment of rent for leased space is generally a significant percentage of total costs for a small business. Rent increases without receiving annual sales increases can reduce the viability of success for a small business. For commercial and retail businesses, rent is often set as a certain percentage of total revenues. Commercial business sustainability is linked to:

- Continual cost management
- Financial stability
- Access to affordable financing
- Adaption to changes in client expectations

Small business owners are usually looking the smallest possible leasable spaces in which they can viably operate their business; however, this desire may not always match up with a market that only has larger spaces available. This may contribute to the commercial affordability issue. In some situations, redevelopment has been found to negatively impact and ultimately displace small business by driving up neighborhood rents that creates interim and long-term challenges for small businesses.

⁵ <https://www.investopedia.com/terms/c/commercialrealestate.asp>

Long-Term Retail Potential (i.e., after the LRT is operational)

According to the “Commercial Market Analysis”, short-term retail demand considers existing gaps in the current supply, quality of certain sites based on location, and development momentum (i.e., market demand). Long-term retail demand takes into consideration the number of households and correlating spending power in a given trade area. Future household growth has an impact regarding how much demand for new retail will be generated.

The Bottineau Community Works June 2018 “Station Area Housing Gaps Analysis”⁶ estimated the number of potential households that could be captured in each station area along the Bottineau Corridor based on forecasts prepared by the Metropolitan Council. There could be new households in the range of 3,600-5,600 between the combined station areas by 2040. The wide range in household will consider the availability of actual sites for redevelopment. It is expected the new household growth could create demand for additional retail space that could include a needed 250,000 to 500,000 square feet.

It is not expected that the retail need will be evenly distributed amongst the station areas due to the same forces that are influencing the current supply of retail space. Access, visibility, proximity to households and workers, and the potential to capitalize on a critical mass of activity and other complementary retailers will play a factor of where development will ultimately occur.

The **Golden Valley Road, 63rd Avenue, 85th Avenue, and 93rd Avenue station areas** are assumed to have limited redevelopment sites. They may still be able to support a small amount of retail focused primarily on food and community desires for communal gathering spots for neighboring households and workers near the station.

In the **Robbinsdale station area**, expanding pedestrian scale buildings may be expected to enhance the area as a retail destination due to increased accessibility of the LRT. Long-term redevelopment sites were identified and two have been analyzed within the Real Estate Development Technical Assistance of the study. Assuming residential and mixed-use redevelopment were to occur, the sites could accommodate a significant number of new housing units. Future new market rate multi-story housing development may support ground floor retail,

Downtown Robbinsdale is anticipated to be destination retail-focused and developed around dining or certain shopping experiences. Future retail development on the fringe of downtown may have a shifted focus on personal services such as grocery and similar supplies and professional services. The amount of retail space in the station area is not expected to significantly be altered as the potential redevelopment sites would require demolition, repurposing, or relocation of existing retail structures.

The **Bass Lake Road and Brooklyn Boulevard station areas** are expected to remain retail districts along the corridor due to proximity to nearby residential neighborhoods and employment areas. The model of a large anchor store surrounded by small national chains continues to evolve with online competition. Property owners may be forced to consider new and innovative shopping center formats and retail stores. The accessibility of the LRT will help drive demand for new multi-story housing, which could be strategically placed on underutilized retail spaces, such as surface parking lots or obsolete retail buildings, some of which could support ground floor retail spaces.

The market analysis found that a long-term challenge of maintaining the existing retail presence in the Bass Lake Road and Brooklyn Boulevard station areas will be the available spending power of nearby households. National and regional economic trends are showing a widening income gap between what was historically considered “working class” or lower-middle class households and upper-middle class households. The neighborhoods served by the retailers in these station areas are mostly on the lower side of this widening gap. This could result in less disposable income available to support many of the existing retailers, especially the national chains, which are driven by stringent standards regarding trade

⁶ <https://www.hennepin.us/-/media/hennepinus/residents/transportation/bottineau/bottineau-housing-gaps-analysis.pdf?la=en&hash=C52492B22BD010CC44A86EC7E07E9F45B76084E6>

area household incomes. It is expected that the construction of LRT would mitigate the impact of the broader economic trends in the station areas by attracting new, more affluent households to them. However, despite this effect, retailing in these station areas will likely need to evolve into sustainable concepts and formats that are not as dependent on national chains filling the majority of the spaces.

Among all the station areas along the Bottineau Corridor, the **Oak Grove station area** is the biggest unknown in terms of long-term retail potential. The station area is currently vacant other than the Target campus. The station area plan calls for a mixed-use development with a dense mix of offices, housing, and retail that would be sized and scaled as pedestrian oriented. Due to its availability of land, Highway 610 access, major employer anchor and future LRT access, this area has the potential to capture 30-40% of the estimated household growth and 40-50% of the estimated employment growth along the Blue Line Corridor through 2040.

Potential challenges for the Oak Grove station area to realize this projected growth potential will be timing, adequate retail space, and ensuring retail experience will complement and not compete with nearby retail districts. Retail tends to follow the development of housing and offices. New households and offices will form a solid base from which significant retail can be supported and is anticipated to take many years. It is thought to be an area that will establish itself as the go-to place for basic or everyday goods and support the surrounding neighborhoods. Retail in this area will not rely on nearby existing neighborhoods as a market for everyday goods and services. It will need to be a combination of destination retailers, who are benefiting from workers and visitors, and smaller scale neighborhood retailers, who are serving the new residences built in the station area.

Office Building Viability and Potential

As stated previously, the “Commercial Market Analysis” categorized office buildings into four types: signature or high buildings; multistory low-rise buildings; single-story or retail buildings; and single-story flex buildings. With the exception of the Target north office campus in the Oak Grove station area, the corridor does not have any high-rise office buildings. The corridor does not have any newer multi-story low-rise buildings, aside from the Crystal Medical Center building in the Bass Lake Road station area.

The majority of office space is single-story buildings that are located in proximity to existing retail buildings and concentrated in areas with a strong retail presence, such as the Brooklyn Boulevard, Bass Lake Road, and Robbinsdale station areas. Businesses that occupy these types of buildings in retail districts are smaller and serve a local residential market including professional, financial, and medical uses.

The final office building type, single-story flex buildings, can be found primarily in the 93rd Avenue station area, but also exists in the periphery of the 85th Avenue, Brooklyn Boulevard, and Bass Lake Road station areas. Because these buildings share a lot of characteristics with light manufacturing buildings, it is not always apparent whether the use of the space by any given business is for office needs or industrial needs. Although various office building types have always existed, the use of the space within the buildings has been changing dramatically in recent years. Updated technology accompanied by a shift in working styles among younger workers has resulted in a decline of space needed per worker. A generation ago, a business needed roughly 250 square feet per office worker. That ratio has dropped to 150 square feet per worker.⁷ When businesses are adding employees, they still may experience an overall reduction in the amount of space they need. In addition, the rapid adoption of remote working created by the COVID crisis may continue to affect the office market as companies consider adopting permanent “work from home” policies.

The quality of office space impacts employer decisions of where to locate businesses. Locations that incorporate high transit accessibility with nearby amenities including housing, retail, entertainment and recreational are typically driving factors that will influence a business decision. Coffee shops and small surrounding retail areas of the LRT are potential work areas as much as the traditional office space.

⁷ <https://www.hennepin.us/-/media/hennepinus/residents/transportation/bottineau/commercial-market-analysis.pdf?la=en&hash=AB3F9340D06A60B65C24B0BDFE188D60E356087F>

Demand for future new office space is expected to come from growth in the number of workers in occupations or industry sectors that require office space. The healthcare industry sector is an example with medical office space driving near-term demand. Market study research found that it was believed there was an unmet need for medical office, particularly in the Bass Lake Road and Robbinsdale station areas due to their existing concentration of medical office space. Office development demand is expected in the Bass Lake Road and Robbinsdale station areas because they satisfy a local need for small business space and professional service providers are available and needed by the surrounding community. As existing office space becomes obsolete, renovation and new development that maintains existing levels of office space would be supported by the market. Office development is most likely to occur in neighborhood-serving small-business formats in each of the station areas that could also be occupied by retail uses, as the shifting of market demand may occur. Developers may be looking for viable options to encourage mixed use development that incorporate small office and/or retail space in new projects.

A Diverse Corridor of Communities

Based on the Bottineau Community Works feedback sessions, residents would like the commercial developed spaces be community driven and reflect the needs and diversity of the people that live in the area adjacent to the Bottineau Corridor. Respondents would like to see the non-residential development contain the following characteristics:

A. Characteristics of the businesses (overview):

1. Accommodation to different modes of transportation to access the buildings, such as biking, pedestrian-access, and scooters
2. Providing an adequate level of safety and security for those individuals who travel to and from the buildings, both employees and customers alike. Having sufficient and easy access to bike trails and transit stops is key
3. Focus on diverse communities, business owners and entrepreneurs and provide them with the necessary resources to begin or maintain their businesses, such as financial support and translation services to help language barriers. This can take form as a partnership with Hennepin County, a satellite location of an existing non-profit or a business resource center (see definition under Funding Tools)
4. Providing support for apprenticeship or internship opportunities for youth that includes the necessary training
5. Avoidance of big box businesses or chains with an emphasis on local residents, suppliers and customers
6. Creating a destination hub for new business and local residents who travel along the corridor

B. Types of businesses (overview):

1. Educational resources, including partnerships with local colleges or universities
2. Healthcare resources, including medical clinics or facilities.
3. Other types of retail that promote cultural food, dance performances, celebrations and other aspects of culture to help showcase the diversity and break stereotypes.
4. Examples of potential businesses:
 - a. grocery stores
 - b. barber shops
 - c. coffee shops (meet, work, relax)
 - d. bike shops (rental, purchase)
 - e. ski/winter shops
 - f. entertainment – night life
 - g. restaurants that have an interesting mix
 - h. pharmacies
 - i. playgrounds
 - j. laundromats

-
- C. Types of legal entities to consider for local businesses:** The following section provides a summary of different models that could be undertaken or pursued for anticipated future commercial (retail, office and mixed-use) space in each of the city locations.

Financial Viability Alternatives

Community Land Trust

A **community land trust (CLT)** is a nonprofit organization that acquires land through purchase, foreclosure or donation and leases out parcels of the land to private persons or businesses at affordable rates for residential or commercial space. The idea is to separate the ownership of the land from the ownership of the property on top of it. The CLT can impose restrictions upon the property to keep it affordable and responsive to the community needs, such as income eligibility and resale stipulations⁸. CLTs have been known to help communities develop the following community assets:

1. Affordable housing for low- and moderate-income people
2. Community gardens
3. Civic buildings
4. Commercial spaces
5. Other community assets on behalf of a community

Community Land Trusts could also be a valuable program to maintain commercial affordability along the Bottineau Corridor through the process of acquiring land at a perceived reasonable price and maintaining that affordability through long-term partnerships.

Community land trusts are flexible organizations that embrace diverse land uses to address various community needs. While the majority of CLTs currently focus on the development and stewardship of owner-occupied housing, some organizations have broadened their focus to emerging opportunities in non-residential development. Additional research has been done on the application and roles of CLTs in non-residential projects; the benefits and challenges of non-residential projects for CLTs; and implications of using CLTs.

CLTs are increasingly taking on a variety of roles and responsibilities in implementing and supporting non-residential development. In commercial development, CLTs have taken on the following roles:

- Engage in land acquisition, project development, and property management;
- Promote community engagement and advocacy efforts; and
- Create new commercial enterprises.

Who governs the community land trust: CLTs are democratically run organizations that include a board of directors, composed of residents of the CLT, community members, public officials, developers and other advisors. The main goal of the CLT is to meet the community's long-term needs and preserve the land and the properties on top of it.

What are some pros and cons of a community land trust?⁹

⁸ <https://urbanomnibus.net/2018/01/community-land-trusts/>

⁹ <https://www.lowimpact.org/lowimpact-topic/community-land-trusts/>

Pros	Cons
<ol style="list-style-type: none"> 1. Affordable to own property 2. Values not as impacted by market 3. CLT sale prices are based on local median income levels rather than the market value 4. Makes communities better to live in by giving them more control 5. Utilizes small local building companies (builders) 	<ol style="list-style-type: none"> 1. CLT owns the land, not individuals (owners) 2. Usually require a minimum equity contribution

Examples of current community land trusts: There are over 200 CLTs in the United States. Below are some examples and more information about Minnesota Community Land Trusts can be found at <http://homeswithinreach.org/wp/minnesota-community-land-trusts/>.

Name	Location	Website
City of Lakes Community Land Trust (collaboration of Powderhorn Residents Group, Seward Redesign, Powderhorn Park Neighborhood Association and Lyndale Neighborhood Development Corporation)	Minneapolis, MN	http://www.clclt.org/
Two Rivers Community Land Trust (St. Croix River Valley)	St. Croix River Valley (Andover, Bayport, Blaine, Cottage Grove, Forest Lake, Lakeland, New Richmond, Newport, Oak Park Heights, Oakdale, St. Paul Park, Stillwater, Spring Lake Park and Woodbury)	https://www.tworiversclt.org/about-us
Rondo Community Land Trust	St. Paul and Suburban Ramsey County	https://rondoclt.org/

Sample Community Land Trust Program and Funding Sources

City of Lakes Community Land Trust

The City of Lakes Community Land Trust (CLCLT) is a non-profit organization formed to create community ownership that preserves affordability and inclusivity. The CLCLT accomplishes this through:

- Assisting households that otherwise would never be able to purchase a home;
- Ensuring that the homes remain affordable for other income-qualified households; and
- Providing the support necessary for homeowners to remain in their homes.

Community Land Trusts (CLT) provide long-term affordable housing by owning the land of a particular property but selling the home on the land to an income-qualified buyer. The homeowner then leases the land from the CLT through a 99-year, renewable ground lease.

The ground lease connects the homeowner to the community and keeps the house permanently affordable by including a resale formula that determines the home's CLT sale price and the homeowner's share of the home's increased value at the time of sale.

This mechanism facilitates the initial investment made in the home by public and private subsidy sources remaining with the home to make it affordable to subsequent, income-qualified buyers.

The CLCLT has facilitated over 60 homeowner resales. These resales offer the opportunity to resell an already affordable home to another low- to moderate-income household in Minneapolis without needing to re-subsidize the home to keep it permanently affordable. CLCLT resales demonstrate the leveraged impact of the CLCLT's long-term affordability and commitment of utilizing limited public resources and growing them over time.

As a non-profit organization, there are a variety of funding options available to it including:

- Individual contributors
- Foundation grants
- Government funding
- Reinvestment of proceeds from the sale of homes

A Commercial CLT is a community-based initiative that works to provide perpetually affordable commercial ownership opportunities. A Commercial CLT acquires land and removes it from the speculative, for-profit, real estate market. Commercial CLTs hold the land it owns "in trust" indefinitely for the benefit of the community, ensuring that the land will always remain affordable for business owners. The Commercial CLT provides a 99-year renewable ground lease to the business; the ground lease includes a resale formula that determines the building's sale price and the business owner's share of the building's increased value at the time of sale. This allows the initial investment made by public and private subsidy sources to remain with the property, making it affordable to subsequent, qualified buyers.

Community-owned cooperatives

An **employee-owned cooperative** ("co-op") is typically created by people who have a specific need and who are willing to work together to operate and organize a company that will meet that need.¹⁰ Typically the owners of the co-op are also the workers of the cooperative.

There are a few examples of types of co-ops, as follows:

1. Worker co-ops: Owned by the people who work for the company and contribute their time and effort to the organization. This is most common for the retail and service industry.
2. Consumer co-ops: owned by the customers who purchase the goods or services from the co-op. A common example is a grocery store co-op.
3. Purchasing co-op: typically comprised of several small businesses who have come together to increase their purchasing power for discounts and offers on products or services they buy

Who governs the Cooperative: A cooperative will often elect a board of directors which oversees the operations and ensures the mission of the cooperative is being met. Members of the cooperative can be board members or officers of the board and are governed by policies and bylaws of the cooperative.

What are some pros and cons of a cooperative?¹¹

¹⁰ <https://ncbaclusa.coop/resources/what-is-a-co-op/>

¹¹ <https://groundfloorpartners.com/worker-owned-cooperatives/>

Pros	Cons
<ol style="list-style-type: none"> 1. Create quality, empowering jobs for community members. 2. More likely than other businesses to employ sustainable business practices. 3. Help member-owners develop critical leadership skills and practice direct, grassroots decision-making. 4. Allow employees to accumulate wealth and build assets through having an ownership stake. 5. Co-op members have a common goal. 	<ol style="list-style-type: none"> 1. Obtaining capital through investors due to reduce cash flow and capital incentives, which may not appeal to larger investors. 2. Some cooperatives limit who can shop there or use their services. 3. Financing can be complicated and may require multiple sources. 4. Often business owners are so concerned about keeping their business alive and may not invest in developing an employee ownership culture.

Sample Employee owned Cooperatives

Some examples and more information about Minnesota employee owned cooperatives can be found at <http://becomingemployeeowned.org/place/minnesota/>.

- [Happy Earth Cleaning – Minneapolis, MN](#)
- [Common Properties Management – Minneapolis, MN](#)
- [Line Break Media – Minneapolis, MN](#)
- [Terra Firma Building and Remodeling – Minneapolis, MN](#)
- [Agua Gorda Cooperative – Long Prairie, MN](#)
- [Matchbox Coffeeshop – Minneapolis, MN](#)
- [Hub Bike Co-op – Minneapolis, MN](#)
- [Hard Times Cafe – Minneapolis, MN](#)
- [Positively Third Street Bakery – Duluth, MN](#)
- [Whole Builders Cooperative – Minneapolis, MN](#)
- [Seward Café – Minneapolis, MN](#)

Sample Community Owned Co-op Program and Funding Sources

People’s Food Co-op and the Food Co-op Community Fund

People’s Food Co-op (PFC) has over 10,500 members and sales approaching \$24 million. PFC is widely recognized as a thriving business bringing people together to build a more sustainable community. PFC ensures the availability of high-quality safe food at fair prices with an emphasis on local, organic, fairly traded, and natural goods through a robust cooperative format.

The cooperative’s capital is derived from member units being sold. The organization operates on a cooperative basis meaning that any excess earnings of the cooperative are distributed to the members in the form of patronage dividends somewhat similar to a rebate based on purchases.

Food Co-op Community Fund

As part of its mission, the PFC established the People’s Food Co-op Community Fund (PFCCF). Co-op owners are encouraged to donate their patronage dividends to the PFCCF.

PFCCF works much like most foundations: contributions made to the fund are part of the permanent endowment. The donations are made by the co-op owners, by the general public, and by People’s Food Co-op. The endowment is invested in the development of other co-ops with nothing invested in the stock

market. The interest earned on the loans to other co-ops is used by the PFCCF to make grants to local nonprofit organizations. Over the past several years, PFCCF grants have been used to fund community garden projects, community health programs, and farm-to-school programs.

Unlike many other foundations or endowment funds, the PFCCF is invested in solely co-ops. The PFCCF enhances People’s Food Co-op’s ability to positively impact the community, which is a fundamental part of their mission.

A cooperative can be funded using a variety of sources:

- Direct investment by the community cooperative owners – those expected to be patrons of the business
- Bank loans
- Small Business Administration loans and other programs
- Program Related Investments
- Direct grants to assist in establishing the organization

Employee stock ownership plans

An **employee stock ownership plan (ESOP)**: is a plan where employees are given stock in the company as part of compensation for working at the company, making those employees shareholders in the company.¹² The company sets up a trust fund and contributes new shares of its own stock or cash to purchase existing shares on an annual basis. Employees can purchase the stock directly, receive stock in the form of stock options or obtain stock through a company profit-sharing plan. An employee must become vested in the program before seeing any benefits.

Who governs the ESOP?

The Plan is administered pursuant to a tax-exempt trust. Shares in the ESOP trust are allocated to individual employee accounts. The company ultimately has possession and control over the shares until the employee vests in his/her shares.

What are some pros and cons of an ESOP?¹³

Pros	Cons
<ol style="list-style-type: none"> 1. Employees don’t have to invest their own money. 2. Tax benefits: A portion of contributions of stock and cash to the plan can be tax-deductible, and there are tax deferral incentives for C corporation owners and S corporation owners. 3. ESOPs allow companies to attract and retain employees long-term. 4. Employees can roll over their distribution into another retirement plan upon leaving the company. 	<ol style="list-style-type: none"> 1. The financial benefits to employees are deferred until the employee vests in their shares, typically 3-6 years. 2. ESOPs cannot be used in partnerships and personal service corporations. 3. Private companies are required to repurchase shares of departing employees which can be expensive. 4. Setting up an ESOP can be expensive.

Currently in use employee owned cooperatives and ESOP: There are an estimated 7,000 employee stock ownership plans covering over 14 million workers as of 2018.

¹² <https://smallbusiness.chron.com/employeeowned-company-work-44184.html>

¹³ <https://www.nceo.org/articles/esop-employee-stock-ownership-plan>

ESOPs could be a valuable program to maintain commercial affordability along the Bottineau Corridor. Due to the complexities of establishing and maintaining an ESOP, it is not recommended that a start-up company adopt this ownership model. An employee owned model would be an easier ownership model for a new business. An ESOP is generally used when transferring ownership of an established business to employees.

Community-owned businesses

Community-owned businesses (COBs): are financed and owned collectively by local residents. Community based enterprises use business to improve the life of a community. They are different from private enterprise because their business activity is undertaken as a means of achieving community benefit, not private gain. COBs can provide a vehicle to fill local needs including local media, fresh groceries, household goods, affordable commercial spaces and other community voids¹⁴.

Who governs the community-owned business?

With COBS, ownership and control lies entirely with local residents. After a corporation is formed to start a business (or buy an existing one), shares are sold to residents who become the owners. Owners then elect a board of directors and handle governance. They may also hire a manager to run the day-to-day business operations. Bylaws ensure the businesses forever remain locally owned and controlled.

What are some pros and cons of a community-owned business?

Pros	Cons
<ol style="list-style-type: none"> 1. Well-suited to attract larger investments from some residents. 2. Provides an opportunity for residents to buy from their own store. 3. Community-owned stores tend to favor buying local products. 4. Enables residents to buy a business that provides an essential service in cases where the current owners are selling or closing. 5. Projects can create local jobs and training opportunities. 	<ol style="list-style-type: none"> 1. Communities often lack the financial and technical capacity. 2. Corruption in certain cooperatives can divert resources or decrease community support.

Currently in use community-owned businesses:

Name	Location	Authority
The Village Mercantile	NEW YORK	https://villagemerc.com/pages/about-us
Bluff Country (community owned but cooperatively run)	Winona, MN	https://www.bluff.coop/

¹⁴ <https://www.amiba.net/resources/community-ownership/>

Name	Location	Authority
Shared Capital Finances Community-Owned Solar Energy	Minneapolis-St. Paul	https://sharedcapital.coop/shared-capital-finances-community-owned-solar-energy/

Community-owned businesses could be a valuable program to maintain commercial affordability along the Bottineau Corridor through the sense of community ownership.

Sample Community-Owned Business and Funding Program

Coffee Shop / Bike repair store

A 501(c)(3) organization owns a coffee shop that is connected with a bike repair store. The 501(c)(3) is a public charity that operates a number of activities in the area and has a board that reflects the community. The coffee shop has a seating area and is operated by full-time employees. The bike repair shop has a full-time repair employee. The bike shop has very limited hours in the winter, but more robust hours the rest of the year.

In the summer, the bike repair shop will have two high school apprentices. The primary goal is to teach the apprentices a craft, but also help them learn about operating a business. This model could be done on a larger scale, or on a similar scale, but in multiple locations.

In this case, revenue is enhanced via the ability to raise funds through fundraising. There is also a strong community board and a close relationship with one of the churches in the neighborhood. The community board includes board members with a variety of skills that can provide “back office” support or oversight. As a part of a larger organization, the coffee shop/bike shop is able to utilize the resources of the larger organization (bookkeeping, HR, etc.). The 501(c)(3) organization utilizes neighborhood and/or nearby resources for these services.

Application to other areas

While another public charity could operate this type of business, it would also be a candidate for a minority entrepreneur or a community owned business – both for-profit operations.

If the business is a for-profit organization, there will be a variety of funding options available to the organizations:

- Small Business Administration loans and other similar programs
- Angel investors (higher rate of return required)
- Social impact investors (lower rate of return required)
- Program Related Investments from foundation (lower rate of return required)
- Direct grants to assist in establishing the organization or employing low-income individuals

The organization could also avail itself of accounting, staffing, HR, etc. services from other neighborhood businesses and benefit from a business resource center for other types of governmental assistance. As a locally owned business, hopefully it would enjoy the patronage and support from local residents.

The business could also be a training location for minorities and low-income individuals to help them gain work skills. It could also be an entry into other work programs and/or apprenticeship programs offered by other businesses in partnership with a local community college.

Structures to foster minority, entrepreneurial or women-owned businesses

Obtain a certification as a woman-owned business:

Organizations such as the Women's Business Enterprise National Council (WBENC) can certify small businesses with this designation through an application process. WBENC certification confirms that a business is at least 51% owned, controlled, operated and managed by a woman or women.¹⁵ Certification will allow businesses to compete for business opportunities from the WBENC corporate members, government agencies and the Small Business Administration Women-Owned Small Business Federal Contracting Program.

Join local organizations focused on the promotion and certification of minority-owned businesses

Becoming a corporate member or certified business by an organization such as the National Minority Supplier Development Council (NMSDC)¹⁶ will provide the company with resources and connections with other minority-owned companies and promote diversity and inclusion within your company's community.

The State of Minnesota offers certification of minority businesses and provides a directory of firm's having an active certification.¹⁷ The Minnesota Unified Certification Program site (<https://mnucp.org/>) contains resources for minority businesses and information about the certification process.

The Metropolitan Economic Development Association (MEDA) operates the Minnesota MBDA Business Center¹⁸ which is part of a nationwide network of thirty-nine centers. MBDA, the Minority Business Development Agency, is a federal agency created specifically to foster the growth of minority owned businesses in America.

Business incubator:

A **business incubator** can provide a viable solution to the problem of high and unsustainable rents to small businesses. A business incubator is a corporation, often non-profit, that assists start-up and developing businesses by providing already-established space and support infrastructure, usually at below-market rates.¹⁹ Entrepreneurs must generally apply for admission into a business incubator program, which includes a review of the business sustainability, business plan and other sources of funds. Most business incubators focus on start-up companies in a particular industry or with a specific business model, such as the food industry, charities or non-profits, seeds, start-ups or medical. Business incubators are often sponsored by private companies, municipal entities and public institutions such as colleges or universities²⁰. Their goal is to reduce the financial concerns many new companies face by offering:

1. Office space
2. Management training
3. Access to shared equipment and meeting rooms
4. Networking activities
5. Other ongoing business development services (legal, accounting, marketing, etc.)

What are some pros and cons of a business incubator?²¹

¹⁵ <https://www.wbenc.org/about-wbenc/>

¹⁶ <https://nmsdc.org/>

¹⁷ <https://mnucp.metc.state.mn.us/>

¹⁸ <https://www.mbda.gov/businesscenters/minneapolis>

¹⁹ <https://www.entrepreneur.com/article/75820>

²⁰ <https://www.entrepreneur.com/encyclopedia/business-incubator>

²¹ <https://www.forbes.com/sites/bhrigupankajprashar/2013/04/12/pros-and-cons-of-joining-an-incubator/#339efaba4483>

Pros	Cons
<ol style="list-style-type: none"> 1. Office, lobby, reception and manufacturing space are available at below market rates. 2. Communication infrastructure is provided. 3. Incubator staff supply specialized advice and knowledge. 4. May provide capital to members. 5. Intangibles such as networking, mentorship, and expertise. 6. Can offer virtual services to clients too remote or small to participate on site. 	<ol style="list-style-type: none"> 1. Telephone, secretarial office, and production equipment often shared with other start-ups. 2. Many incubators set graduation requirements via development benchmarks, after which businesses are expected to move on. 3. Capital investment by the incubator can complicate business matters.

Currently in use business incubators

Name	Location	Authority
University Enterprise Laboratories	Saint Paul, MN	https://www.uelmn.org/
Northside Economic Opportunity Network	Minneapolis, MN	https://www.neon-mn.org/
Neighborhood Development Center	Saint Paul, MN	http://www.ndc-mn.org/
Technology Incubation Center	Vadnais Heights, MN	https://www.technologyincubationcenter.com/

Case study for business incubator sample project:

A **business incubator** can provide a viable solution to the problem of high and unsustainable rents to small businesses. A business incubator (“BI”) is typically established as a non-profit 501(c)(3) organization that supports growth in a particular industry. The organization will provide the facility, office space and supportive programming for early-stage companies.

Funding sources for a BI

Business incubators are often sponsored by private companies, municipal entities and public institutions such as colleges or universities, so much of their funding may come from the sponsoring organization in addition to other private donors.

Other companies and organizations in a similar industry may also contribute to the BI and could share their resources with the start-ups as needed. This may also include businesses who could provide

administrative support to the start-ups residing in the BI, such as talent acquisition, accounting and tax, legal and marketing support, with the potential for a discounted rate.

Governance of a BI

As a non-profit organization, there will typically be a board of directors, which may be comprised of representatives/leaders all over the city or state in the particular industry. The board of directors can elect board officers to oversee operations of the BI. The board can also provide more opportunities for the BI and its start-ups to learn about other companies in the area, specifically industry trends, figures and what is new in the marketplace.

Criteria to apply for a BI

Many business incubators allow companies to apply online. Companies would typically need to provide their organizational information, space needs (e.g. offices, shared space and equipment needs), and current funding levels/sources. BIs conduct research on the company including browsing social media, the website and business plan from a sustainability and mission-alignment perspective.

Resources available while residing in a BI

1. Networking services: The BI can invest in and provide a number of services designed to help grow the start-up business. It can provide opportunities to network with other start-ups and offer training opportunities in different areas of business.
 - a. Partnership opportunities: BIs are sometimes supported or funded by other larger organizations or companies, such as governments, colleges or universities. This connection can provide a myriad of resources to the start-up, including potential employees or apprentices, funding sources and access to research (depending on the industry).
2. Business libraries or journals: The BI can often subscribe to expensive knowledge tools such as libraries, journals and other articles that can assist start-ups with their own research, technology and development of materials.
3. Business services: The BI can offer shared spaces and resources with the other start-up companies, to allow the start-up access without having to incur the expense outright. Examples of on-site business services could include shared conference spaces, shared IT and teleconference equipment and helpdesk, high-speed Wi-Fi connections, shared office equipment (printers, copiers, postage), secure sites for collecting and shipping packages and a shared loading dock for shipping and receiving needs.
 - a. The BI can occupy a larger space to house start-up companies, so it can invest or expand rooms and conference centers for business use. For example, if start-ups want to hold networking or grand opening events, trainings or other presentations, they could have access to an appropriately sized room that may otherwise be too expensive to rent on its own.
4. Financial resources: Aside from offering trainings about business concepts, BIs can assist start-ups with obtaining and accessing financial support from governmental entities, private companies, the SBA or other reputable resources. It can also provide assistance with applications, processes and tracking/documenting funds upon receipt.
5. Logistical offerings: Typically for the below-market rental fee, the BI provides discounted or free guest and employee parking, a convenient location for businesses to start up and network and bike racks for convenient commute.

Exiting a BI

Most BIs require the start-up to exit after a certain period of time or after obtaining a certain level of funding or growth. BIs may also require on-going management to meet the BIs general standards, which could cause start-ups to exit early or change directions.

Resource center

Establishing a business resource center (“Center”) within one or each of the corresponding neighborhoods could be a beneficial type of commercial enterprise to undertake in order to promote the sustainability of small businesses. The Center would provide a one-stop-shop for the various needs of a local business from the onset, including service, financial, space or employment needs. The Center could take the form of a website with limited neighborhood access or a physical location with a personal representative to assist with walk-in questions. The representative may be bilingual or have access to translation services to assist anyone who may need help. The goal of the Center is to help small businesses with access to these resources and funding as well as increase the potential for the enterprise to be commercially successful.

For example, if a start-up wanted to establish a new business in one of the neighborhoods, it could stop in the Center or peruse the website, which would assist the start-up with the following:

1. **Legal formation and tax-exempt status:** the Center advises the start-up on the basic steps to form a new company. It also features brochures and contact information for local attorneys and accountants who specialize in small businesses to help the start-up get moving or to obtain tax-exempt status with the Internal Revenue Service.
2. **Financing:** if the start-up had a few thousand dollars of savings and family contributions, it might be looking for other financing options for additional seed money, and ways to finance equipment purchases. The Center works with the start-up to budget out projected income (or connects it with an advisor to do so) and provides a listing of the available options for grants and loans, including those featured under Funding Sources. The Center may also personally know loan officers, bankers and other organization representatives to connect the start-up with for help in that area.
3. **Office space:** the Center evaluates the space needs of the start-up depending on the type of enterprise, and either connects it with lessors within that neighborhood or with a business incubator if it meets the required criteria.
4. **Employment:** The Center would also be able to either provide names of potential staffing agencies or assist with the recruitment of qualified employees in the area, which would also help foster community involvement and job creation of the neighborhood.
5. **Training:** The Center may hold networking sessions or partner with local colleges, universities or companies to provide the start-up with training, both for its new employees and for individuals in management positions.

Funding Tools

Below is a partial list of resources available to help businesses and residents access funding or financing, especially to incentivize businesses that are in mixed use development (both commercial and residential use). Featured funding resources provide a variety of opportunities for types of businesses that include access to capital, equity partners, grants and deferred loans, low-interest financing, and flexible financing. Also included as potential funding resources are investment/loan guarantees by trusted entities: Many community members don’t trust traditional banks or lenders, but still want a way to invest while also having investments backed by government entities to guarantee their investment. Providing these resources is a means of allowing small businesses to access funding for capital needs.

Potential funding sources to be considered for commercial projects and may address affordability concerns:

1. **Anchor institutions:** are generally non-profit organizations that once established tend not to move locations. These organizations have the economic potential to leverage their assets and revenues to promote local private sector development by buying and recruiting locally and incubating and advising new businesses. Anchor institutions tend to be universities or non-profit hospitals and can provide steady rental income (at market rates) to help build community

wealth. They can also provide capital or low-interest loan financing to community development financial institutions (CDFIs – see below).

2. Angel investors: are typically individuals who have excess cash and are looking for a higher rate of return than would be available on more traditional investments. They are great for providing capital for start-up or expansion for businesses in the form of equity financing and can help fill in the gap between small-scale financing from family and friends and venture capitalists.
3. Community development financial institutions (CDFIs): provide credit and financial services to people and communities who may be underserved by mainstream commercial banks and lenders. A CDFI can take form as a for-profit or not-for-profit organization, and are commonly formed as community development banks, credit unions, loan funds, venture capital funds or microenterprise loan funds. CDFIs can invest in local commercial businesses or assist other organizations to develop affordable housing or commercial programs.
4. Community investment pool (“CIP”) or community investment guarantee pool (“CIGP”): A relatively recent investment tool, the CIP or CIGP leverages excess cash from companies or organizations to pool together to form a source of credit enhancement for specialized areas or uses. These pools tend to support businesses and enterprises promoting areas like affordable housing, small business and climate change, and whose primary end users are women or people of color. Initiatives such as reducing CO2 emissions to save on energy bills for people with low income or providing seed money to start-up food co-ops who create jobs and create access to healthy food are examples where these pools can assist. Pools also allow for sharing of profit and of risk, to avoid the risks of investing in a single company that may not survive long-term.
5. Foundations: are usually non-profit organizations in the form of private foundations or public charities. Many educational and healthcare entities establish foundations to further their philanthropic goals. Community-owned businesses or cooperatives, for example, could identify foundations to partner with to establish businesses that focus on healthcare outreach or education, or grocery stores to promote healthy lifestyles. Foundations could provide funding in the form of grants, equity investment or program related loans.
6. Grants.gov is a website available to assist organization identify or search for available grants upon meeting certain criteria.
7. Higher education institution (colleges and universities) partnerships: can often be used as anchor institutions to provide funding to community-based projects as well as offer academic programs, student-workers and research capacity to assist with other community initiatives. They can partner with business incubators (or in some cases establish one themselves) or have representation for community land trusts or community-owned businesses.
8. National Association for the Self-employed (NASE): is the nation’s leading resource for the self-employed and micro-businesses (those with 10 employees or less). Offers self-employed access to benefits and resources normally available to the big companies, gives them a strong voice on Capitol Hill and provides discounted legal and investment services. NASE members can apply for small business grants worth up to \$4,000 each, typically to assist with one-time needs e.g. computers, part-time help, marketing/website creation, etc.
9. National Cooperative Bank (NOB): is one of the leading banks to independent grocers and consumer-owned food cooperatives. They provide services such as: cash management, checking and savings accounts, commercial real estate loans, commercial loans and SBA loans specifically to independent businesses.
10. Program related investments (“PRIs”): Organizations who offer PRIs can have a significant impact on community wealth building. Program related investments usually take the form of low-interest loans to organizations who align with the mission of the lender foundation and may be forgiven depending on the circumstances. Repayments of principal and interest to the lender foundation are then used for additional program related investments, essentially multiplying the benefit of the original loan amount. An example of a local foundations who can offer PRIs include The Venn Foundation.

11. Public/private partnerships: Federal or municipal entities will sometimes establish special funds or development subsidiaries to focus on a specific task like affordable housing or commercial development. Through partnerships with other private companies or foundations, projects can take form of joint ventures to help with community and neighborhood development.
12. Small Business Administration (SBA): the SBA is the only cabinet-level federal agency fully dedicated to small business and provides counseling, capital and contracting expertise for small businesses. SBA can provide a means to start-up capital in the form of loans, and may offer certain grant programs depending on demand e.g. Program for Investment in Microentrepreneurs (PRIME) from 2018
13. Social impact investors: Individual or institutional investors that typically have excess cash flow and who are driven to make impact investments into companies and organizations in order to generate positive, measurable social or environmental outcomes alongside a financial return. Their investments can be strategic and mission-aligned, or can reflect a screening process, whereby the companies they invest in are based upon certain social and/or environmental criteria. They can also take out current investments in larger corporations and reinvest in smaller organizations through a community development financial institution (CDFI) as a form of community investing.

Marketing the neighborhoods and businesses to angel and social impact investors

Below is a non-exhaustive list of considerations and means to market the start-up companies and neighborhoods along the corridor to investors, specifically angel investors and social impact investors.

1. Networking is important in many aspects of starting a business, including generating sales and generating investors. Bringing multiple people together in the venture and including individuals with ties to various community leaders will help spread the word without much effort or expense for the business itself. Attending community events or joining community action groups can also build a network to connect with potential resources.
2. Building relationships with well-known investors before asking for money may also lead to a better business plan and insights as to what investors are looking for in a company. There's no financial commitment and the business can utilize the experience of the investor for making it more attractive and successful.
3. Determine what the return on investment will be and include a detailed and realistic summary of how the business intends to get there. Businesses can offer both community benefits such as job creation or access to healthcare; partner benefits such as allowing investor input on decisions and strategy; and financial benefits such as guaranteed return with the backing of another institution.
4. Social media can be a powerful tool that can have a lot of consumer influence. When thinking of using social media platforms to raise awareness about an investment opportunity, it's important to think strategically of which platforms targeted investors utilize and which platforms are most effective. Twitter and LinkedIn are good starting points, as much of the information is quickly accessed and updated regularly.

It's important to assign the management of a social media platform to a qualified candidate to ensure the company or opportunity is well-represented. Candidates can be employees or contractors of the company, including specialized digital marketing companies who can design an advertising strategy. Social impact investors pay attention to social media and do their research on companies and their impact in society. After the initial investments, it's also important to highlight the business milestones and keep investors and potential investors updated on upcoming financing opportunities.

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5. Investor-focused websites such as Funded.com²² can provide a neutral ground to assist start-up companies and investors alike by providing resources to develop a solid business plan for start-ups and to bring together those who are looking for funding and those who are looking to invest. Funded.com, for example, can pair start-ups with angel investors, venture capital, equity investors or micro loans, whichever may work best for the type of business. Angel investors look for opportunities with larger return potential, and the website allows them to conduct thorough research into the businesses.

National Case Studies

The challenges and opportunities of developing projects along transit corridors or other unique properties are common across all marketplaces. The following discussion provides a look at what other areas have wrestled with and options that have been explored.

*The City of Seattle*²³

Seattle's rapid growth has caused significant commercial affordability challenges for small businesses:

1. Price: space is becoming more expensive
2. Availability: space is harder to find, particularly in appropriate sizes for small businesses
3. Construction: amount of new construction is impacting small storefront business
4. Financing: small businesses have difficulty accessing lending capital
5. Resources: small businesses are disproportionately affected by knowledge or skills gaps, primarily due to lack of resources
6. Permitting: lapses in the permitting and design review processes place undue burdens on small businesses

To address these challenges, the City assembled the Commercial Affordability Advisory Committee in April 2016. The committee has set forth its recommendations, which are intended to:

- Strengthen and reduce displacement of existing and legacy small businesses
- Activate the ground-level public realm of Seattle's pedestrian-oriented neighborhoods
- Enable space for business incubation, including light craft manufacturing
- Increase the overall economic and cultural vitality of our neighborhoods
- Make it more viable for emerging businesses, artists and organizations to thrive

The recommended action plan included the following new efforts to address commercial affordability:

1. Launch new entity focused on commercial affordability
This entity would provide support services for small businesses and small-scale building owners, including technical assistance, help navigating real estate issues and City processes, support from non-public funding resources, activation of public agency-owned property, and coordinated advocacy
2. Institute new financial incentives
 - Commercial Affordability Tax Abatement
 - Incremental Property Tax Adjustments
 - Commercial Affordability Small Business Fund*Advocate for legislative changes that would make it advantageous (via property tax exemptions and property tax assessments tied to building income) for property owners to support local small businesses. Stimulate a non-City fund that would provide alternative financing options for both small businesses and small property owners*

²² <https://www.funded.com/>

²³

http://www.seattle.gov/Documents/Departments/economicDevelopment/commercial_affordability_advisory_committee_report_lo_re_s.pdf

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3. Changes to public policy
 - Sale/Lease of Public Property
 - Commercial Space in Affordable Housing Projects
 - Co-locating Affordable Commercial Uses within Public Properties
 - Promote Small Scale Commercial Pockets
 - Reduce Small Business Displacement

Specifically, focus on the sale/lease of public property; affordable commercial space within mixed-use housing developments, public spaces or transit oriented properties; zoning that encourages small-scale commercial pockets in residential areas; and policies that promote healthy mix of local, small businesses and chain/big box retail tenancy.

4. Improve the permitting process
 - Fast Track Permitting
 - Small Business Design Guidelines
 - Coordinated Development

Reduce permitting requirements for qualifying “light-impact” small business projects, strengthen design guidelines that favor small business and retail spaces, and enable greater neighborhood input on tenant selection.

5. Expand technical assistance programs
 - Commercial Affordability Consulting Team
 - Coordinated Outreach
 - Diversified Outreach
 - Small Business Marketplace Exchange

Increase or supplement the Office of Economic Development’s existing small business resources to include a third-party commercial affordability consulting team, coordinated and diversified outreach (more languages and formats), and an online “Marketplace Exchange” for the small business and property owner community.

Additional potential solutions that were discussed in the study but not incorporated within the recommendations include the following:

Legacy Business Program: *Legacy businesses are a fundamental component of the target defined by this initiative. The Committee has looked at other cities, such as San Francisco, that have committed to provide promotional support and tax/financial incentives for legacy businesses (defined as businesses with at least 20 years of operations). However, the Committee noted that direct financial support using City funds would generally be restricted in Washington due to the state’s lending of credit/gifting of public funds prohibition. The Committee does recommend promotional support for legacy businesses and encourages their full engagement with the broader solutions recommended within this document. As an example, the City of San Francisco utilizes a legacy business registry to track, promote and provide technical assistance to these businesses.*

Commercial Rent Control: *The Committee understands rent control to be a mandatory cap or limit of the total rent (rent, triple net, other costs) allowed to be charged by the landlord. The Committee does not support rent control as a solution for commercial affordability for the following reasons:*

- Rent control may have inadvertent negative consequences by reducing income to landlords while costs continue to rise. This can lead to deferred maintenance, depreciating the building and surrounding neighborhood which will, in turn, diminish the success of the businesses which rent control attempts to support
- Rent control has the potential to perpetuate business models that are unsustainable, a blunt tool that artificially maintains equitable affordability
- Rent control does not solve any of the underlying problems that the Committee has identified including lack of favorable financing, technical skills, impacts of permitting or supply of quality spaces that support healthy business models

- Commercial rent control may inadvertently create greater pressure on residential rents as landlords lose income from their commercial spaces and look to offset that loss with a rise in residential rents
- The impact that commercial rent control aims to have is embedded within several of the recommended solutions within this report

Prosper Portland

Affordable Commercial Tenancing Program

Prosper Portland has created the Affordable Commercial Tenancing Program to address a recent dramatic increase in retail rents and decrease in vacancy rates in the city of Portland. The respective increases and decreases have resulted in the displacement of small businesses from Portland's urban neighborhoods. The program was established in an effort to achieve the following objectives:

1. Reduce barriers to entry for underrepresented businesses
2. Preserves the vitality of small businesses
3. Provide business development opportunities that in turn offer needed goods and services to the community
4. Advance the City's goal of building an equitable economy

Changes to the Portland City Code allowed Prosper Portland to add the Affordable Commercial Space Bonus Program to its existing affordable tenancing initiative. The Bonus Program allows mixed-use development projects to access a floor area ratio (FAR) and height bonus to add space to residential, commercial office or hotel projects within approved Commercial/Mixed-use zones. Proposed projects that include a housing component must include 20 or fewer new residential units. Priority tenants for the affordable space are local businesses owned by women and/or people of color, local businesses primarily owned by individuals who are members of historically underserved populations; and non-profit organizations which serve historically underserved communities, including communities of color.

The Affordable Commercial Tenancing Program is available in at least two locations in the City to offer access and assistance to qualified businesses in the form of an equitable application process, access to space, and in some cases additional incentives designed to lower the barriers to entry for emerging and small businesses, such as reduced rent, tenant improvement contributions and technical assistance.

Institute for Local Self-Reliance²⁴

The information contained in this section is information obtained from an article written by the Institute for Local Self-Reliance. The organization analyzed commercial affordability to understand what strategies and programs could be implemented in an effort to mitigate increased rent costs for commercial spaces, as well as declines in availability of small spaces for businesses. It also explored potential strategies that communities around the country have begun exploring to understand how they could assist with maintaining commercial affordability. Listed below is a summary of those strategies and description of programs that have been analyzed and used.

There are multiple reasons and variables that ultimately causes the rapidly growing and increasingly unaffordable commercial rents: Those identified are listed below:

1. Increased commercial real estate prices: a global surplus of capital seeking higher returns is flooding into urban commercial real estate, causing a speculative run-up in prices.
2. Increased popularity of certain cities: – Some cities are booming as there is increased demand from people that seek walkable, mixed use urban districts. While this should increase opportunities for businesses, it could also drive up the demand for small storefront space. Rises in rents often significantly outpaces sales growth.

²⁴ <https://ilsr.org/new-action-on-commercial-affordability/>

3. Growth demands of national chains: - Increased demand is also coming from national chains. After saturation of the suburbs and under pressure from shareholders to show square footage growth year after year, some have turned to cities to sustain their expansion.
4. Limited and declining supply of small spaces: Older urban buildings are being redeveloped or razed, and the projects that replace them often provide spaces that are designed for chains and too large to be suitable or affordable for local entrepreneurs.
5. A preference for national companies over independent businesses in commercial real estate financing - Banks and other lenders often provide lower interest rates or better terms if a property owner or developer has signed national, brand-name tenants.

The following strategies are based on information that has been researched and summarized based on a range of ideas provided by elected officials, business owners, and community leaders to understand how communities can keep space affordable and provide assurance that entrepreneurs continue to thrive:

1) Broaden Ownership

Although not suitable for every small business, owning rather than leasing is one of the best ways to ensure stable occupancy costs.

Only a small minority of independent retailers currently own their space. Several cities are exploring programs to increase that share by helping businesses buy their buildings or buy their spaces as commercial condominiums. Another approach involves expanding community ownership of commercial buildings. Through various structures, such as real estate investment cooperatives, neighbors can invest in commercial buildings and guarantee local businesses long-term stability and reasonable, cost-driven rent increases.

In Austin, a group of local businesses that are part of the Austin Independent Business Alliance have provided a recommendation for the City to facilitate a lease-to-own program, using federal grants to make the program possible. The belief is that local and small businesses need to own the space they occupy to attain full sustainability.

In New York City, strategies have been proposed for the city to use to encourage landlords to separate ground-level retail space in buildings they own and sell those spaces as commercial condominiums. Once broken up from residential or office space on other floors, the ground-level spaces become more accessible for local businesses to purchase. The city could offer landlords a reduction on certain city debts, such as building fines and sewer payments one as a way to incent landlords to separate the space, if they paid the debts using earnings from the sale of the commercial condos.

Other options businesses could explore if looking for opportunities to buy their building include crowdfunding or direct public offerings, which allow unaccredited investors (i.e., people who are not wealthy) to buy shares of a business that is seeking to raise capital. As of now, many businesses have launched crowdfunding campaigns for real estate on their own, but there's not yet a platform or infrastructure in place to facilitate more such transactions.

Create a "Buy Your Building" Plan

In Salt Lake City, the idea is further along. There, the city has considered the creation of a "Buy Your Building" program, which would connect local businesses that are pursuing assistance for property acquisition with city financing and a larger network of local partner banks. The city has previously established a similar program that assists local businesses access credit. The Economic Development Loan Fund is a \$10 million pool for business development that provides lending to businesses that may not qualify for a traditional bank loan. Between Nov. 2014 and Dec. 2015, the fund approved \$3.48 million in loans to 24 local businesses, nearly half of which went to low-income entrepreneurs. The program terms allow businesses to apply for a loan to cover a down payment. In some situations, down payment assistance is not enough as a business does not have the financial capacity to secure a bank mortgage without support.

The City also needs to understand the level of assistance that is needed. A concern of this program is that there is not a 'one size fits all' scenario. Ownership versus leasing is an important business decision to make and the purchase of a building will not be right for every business. Some businesses need to focus their resources on growth of inventory and increasing cash flow. Other businesses, however, could be well-served by seeing real estate as part of their business plan.

Foster Community Ownership of Commercial Spaces

Community ownership is another approach that has been analyzed and adopted to ensure commercial space offers viable opportunities for local entrepreneurs and continues to host businesses that fit the surrounding neighborhood. When customers and neighbors become the owners of a commercial building, their interests are more aligned with those of their business tenants, than when the building is owned by remote developers. This alignment is reflected in lease terms. For example, one type of lease structure includes a guaranteed rent that is low base amount plus a percentage of the business sales. Effectively the property owners (lessee) and the business (lessor) would grow and profit together as sales grew. With the various ownership models that include customer cooperatives, community-owned stores, commercial community land trusts, and real estate investment cooperatives, financing is provided by their member-investors and generally not subject to the same equity investor requirements or potential limitations and biases that may exist against independent businesses.

One example is the Northeast Investment Cooperative in Minneapolis, which was started by a group of neighbors who wanted to invest their money locally and bring more local businesses into their commercial corridor. NEIC has purchased two buildings that house three thriving businesses, and when it was looking for tenants for its new spaces, it specifically sought locally owned enterprises. NEIC was then able to work with those businesses to create the right space for them. Two of them, a brewery and a bakery, had struggled to find a workable commercial space elsewhere. "I think our willingness to take the risk and do the build out and not have to charge as much as you would have to charge to make full business sense originally was pretty important," says Leslie Watson, a member of NEIC's founding board.²⁵

With this model, the businesses and owners benefit, as well as the city. Residents become more civically engaged and connected and decisions made regarding urban landscape are being made by the people who live in it. To grow and support investment cooperatives and similar models, cities can spread information about them and review ways to steer capital to them, such as by offering tax credits for local investment or, in low-income communities particularly, investing themselves. They can also work with state governments to adopt state level securities exemptions for member investment in cooperatives. Community ownership can be an especially useful tool in neighborhoods where property values are only beginning to accelerate upward, so that buildings are still relatively affordable and residents and local business owners can benefit from future increases.

2) Reduce the Power Imbalance in Landlord-Tenant Negotiations

Another set of policy ideas would give small businesses certain rights when it comes time to renew their leases. These protections might include an established timeline for negotiations, options for long-term lease, and recourse to arbitration. Cities are also looking at ways to provide property tax credits to landlords who provide affordable leases to locally owned businesses.

3) Zone for a Local Business Environment

Zoning can be a powerful tool for creating a business-friendly environment that provides opportunity for local entrepreneurs.

Key strategies include preserving the existing characteristics of established commercial districts, ensuring an adequate supply of small spaces, and adopting business diversity ordinances that encourage a mix of different types of businesses.

4) Preserve and Increase the Supply of Smaller Spaces

²⁵ <https://ilsr.org/new-action-on-commercial-affordability/>

City zoning and land use codes could be used to encourage creation and maintenance of smaller retail spaces and discourage large storefronts. City requirements would include the requirement that new buildings with a certain amount of commercial frontage have a minimum number of storefront establishments or limit the maximum store sizes. As an example, communities could use zoning requirements that encourage reduced-size storefronts that could be as small as 250-square-feet or prohibit storefronts from being no larger than 2,000-square-feet. Restrictions on square footage sizes could potentially limit certain types of development from occurring. Another option would be to set stricter limits on developers' ability to renovate existing spaces to combine storefronts.

5) Set Aside Space for Local Businesses in New Development

Some communities have required that a portion of the space in select new development projects be set aside for locally owned businesses. These requirements could be codified and applied across all development projects that meet certain size or location thresholds.

Set Aside Space for Local Business in New Development

Cities have a range of options when considering set aside space. Three that have been found to be promising include requirements:

- that a certain portion of ground-level retail space in new developments be set aside for locally owned businesses,
- that a certain portion of ground-level retail be dedicated to commercial spaces that are small, and
- that a certain portion of ground-level retail be commercial condominiums.

The last option is tied to increasing small business property ownership and has the added advantage that storefront ownership is more likely to appeal to locally owned businesses than to national chains, which have a standard business model built around leasing.

6) Create a Preference for Local Businesses in Publicly Owned Buildings

Cities often own and invest in real estate themselves. Some are establishing a preference for leasing spaces in city-owned or -financed buildings to locally owned businesses. In underserved communities, this could include offering space at below-market rates to local, neighborhood-serving businesses.

Create a Preference for Local Businesses in Publicly Owned Buildings

Many of these strategies will work best when deployed in combination with each other, and with other proven tools for nurturing the local economy, such as formula business ordinances and community impact reviews. Combined, they represent a broader shift in how cities can work with their locally owned businesses. A mix of these policies will create a built environment conducive to a healthy independent business community, and therefore, a healthy city.

7) Recognize Businesses as Cultural Landmarks

Following in the footsteps of Rome, Paris, and London, San Francisco has established a program to recognize and support longstanding, culturally significant businesses. The program provides incentives to landlords who agree to 10-year leases, and it could also evolve to help businesses purchase their spaces.

It has been found that high rents have the resulting effect of shuttering longtime businesses that can no longer afford their space. High rents also create a barrier to entry for new entrepreneurs leading to a scarcity of start-ups in cities once known for their business dynamism.

While there is a perception that national chains pay higher rents, that's not necessarily true. In some cases, it's local businesses that have to pay higher rents in order to prove themselves, while national chains are given a discount for their perceived stability and creditworthiness. A formula retail tenant may not be paying more per square foot, but it adds some creditworthiness to the balance sheet for the landlord.

Conclusion and Summary

The majority of the commercial space along the future Blue Line corridor is naturally affordable. As construction of the Blue Line corridor gets closer to fruition, there is concern that the existing commercial spaces will be priced out of the market, as has been demonstrated for a variety of reasons in other regions and TOD corridors. Numerous studies and analysis have been done throughout the country to understand what options communities and other stakeholders may have to preserve long term commercial affordability.

Information provided within this report includes details on work and research that has already been completed related to commercial and housing market analysis for station areas along the corridor. It also provides information on the various programs and strategies that communities across the country have explored and deployed to respond to commercial affordability needs. Sample strategies and created programs were researched and described to understand how they could apply to projects along the Blue Line corridor. The previous market analysis completed related to commercial markets along the LRT corridor and related housing needs provided a basis for which the strategies were analyzed. Lastly, it provides summary information on various programs and funding sources that could be utilized to meet the commercial affordability needs.

Through the work and research that has been completed to-date, there are several programs that have been identified as available for communities to use and include the following:

- Community Land Trust
- Community-Owned Cooperatives
- Employee Stock Ownership Plans
- Community-Owned Businesses
- Structures to Foster Minority, Entrepreneurial or Women-Owned Businesses
- Business Incubator
- Resource Center
- Marketing the Neighborhoods to Social Impact Investors

Several communities throughout the country have done analysis surrounding commercial affordability and have adopted policies that support one or more of the above programs. They may have also initiated correlating funding programs that are needed for these programs to be successful and sustainable. Additional programs that were identified and could be considered to maintain commercial affordability along the Blue Line LRT include:

- Broaden Ownership
- Set Aside Space for Local Businesses in New Development
- Reduce the Power Imbalance in Landlord-Tenant Negotiations
- Preserve and Increase the Supply of Smaller Spaces
- Recognize Businesses as Cultural Landmarks
- Affordable Commercial Tenanting Program
- Launch new entity focused on commercial affordability
- Institute new financial incentive
- Changes to public policy
- Improve the permitting process
- Expand technical assistance programs
- Legacy Business Program:
- Commercial Rent Control:

Maintaining affordability for existing commercial spaces – including retail, office, neighborhood centers, community centers and small business – will be key in preserving their existence. Adopting one or more of these programs could also be used to meet future community needs for new development and provide opportunities for the necessary commercial – retail and office – growth to occur, as identified in the market analysis work done to-date.

The current market for commercial real estate faces uncertainties right now due to the COVID-19 pandemic and rapidly changing consumer behaviors and economic conditions. However, now is an important moment to plan for the future. As plans for the construction of the Blue Line continue to move forward, the Met Council and the communities along the route should start proactively taking steps to support their existing local businesses through a potential change in the market conditions for commercial space. The programs and examples in this report are intended to help guide that process.