Design and Development Strategy

The Armory is an iconic urban development that will create a strong identity for Minneapolitans in the 21st Century. Currently, Minneapolis looks to establish itself as a world-class cosmopolitan community. The city is approaching a threshold of becoming a model for how a mid-size urban region can function in response to dynamic change. The Armory is a development that provides the means to absorb predicted growth in density through an iconic approach.

The Armory is a vision for a district that effectively connects the components that make Minneapolis a successful city: parks, bicycling, a unique architectural vernacular, culture, and a strong work ethic. Portland Avenue serves as the spine for this connection, linking pedestrians to local and regional destinations via: the LRT network, a future downtown street car loop, skyways, and the first livable, pedestrian-oriented district in the Downtown area. The existing Armory building will be repurposed as a flexible civic meeting space and an indoor market. The Armory reinforces the rich history of the city’s past, becoming a dynamic focal point for a new district.

Arroy Green, the adjacent urban park and retail destination, rises in response to the Armory façade in a gestural embrace towards the River. Armory Green serves as a socio-economic crucible for the District and the downtown area. Visitors, commuters, and residents come to the Green to meet, shop, and relax in the City’s first iconic urban open space. In wintertime, the Skyway connection activates the interior of the Green, where people shop in a unique open setting. In summer the interior opens up onto the slope, accommodating both daily activity and special events such as concerts and festivals. This spatial flexibility lends itself to the character of adaptable urbanism that embodies The Armory.

The downtown core is poised to experience increased urban density in the near term. The Armory responds to this predicted growth in both the scale and scope of development. Current and future planned construction projects consisting of office, retail, hotel and for-sale residential are not enough to meet forecasted absorption.¹ Moreover, Phase I construction will be completed during the expansion phase of the real estate cycle for each sector except multi-family.² Additionally, this development can be expected to spur demand from the Downtown commuting population of 133,000.

The Armory is one component of a greater vision for Minneapolis. It is a community that functions as a node of dynamic change, serving the Minneapolis-St. Paul region, the University of Minnesota, adjacent neighborhoods, and the business district. This development and its greater vision incorporate a community-centric design that will endure and be loved by future generations.

Equity and Financing

Development of The Armory begins with the formation of a real estate development partnership capitalized by the owners’ parcel contributions. The owner’s initial capital contribution of land to the partnership along with a complete financial pro forma, detailed design, and appropriate bonding and insurance provide the security needed to obtain financing. This financing will come in the form of a construction loan followed by a take-out permanent loan for all three phases of construction. Public incentives provide additional capital as well as foster mutual interest for a successful development. These incentives give the owners the ability to create a downtown urban park from two valuable parcels. This increases value for both Minneapolis and the owners by creating an iconic landmark to serve the community.

The percentage ownership of the development partnership corresponds to the value of each owner’s parcel contribution. These parcels form the equity basis of the construction and permanent loans. The lender assesses development feasibility, financial strength, borrower character, repayment ability, and security in the form of appropriate liens, possible individual guarantees, insurance, and bonding. The attached pro forma indicates that the development has a large return on capital, healthy debt coverage and an appropriate loan to value.

The construction loan is calculated on a term of one year at a rate of 200bp over Prime and one point fee. The loan balance increases as construction draws are presented to the lender.³ Upon Phase I completion, the lender refinances the balance into a nine year balloon loan with a 30 year amortization.⁴ The Phase I initial debt service payment and fee is paid from income generated in 2013 and 2014. Thereafter, the development’s revenues provide robust debt coverage. At the maximum, LTV comes in around 73%. Each of the following phases use the same method of construction loan to permanent loan financing with increasing strength in coverage and collateral. Additionally, the permanent financing of all phases has a balloon payment scheduled in year 2024 for valuation purposes.

Minneapolis has committed public funds to building a 500 space parking ramp in Phase I. The city then operates the ramp for a ten year period, collecting revenue from 400 spaces and lease revenue for 100 spaces from the development entity. In year 10, title to the parking ramp reverts to the development entity. An assumption was made that federal funds would be generated through the Federal Historic Preservation Tax Incentive Program and the Low Income Housing Tax Credit Program.⁵ A TIF PAYGO note is possible. However, based on the pro forma’s strong expected return for the owners, the “but for” condition is unlikely to be met.⁶

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¹IRR Viewpoint 2013 National and Minneapolis
²Northmarq, Gaughan and Minneapolis Business Journal
³The pro forma assumes a full draw upon the start of construction.
⁴Each balloon payment corresponds to a ten year hold ending in 2024 for valuation purposes.
⁵Assumed credit lowered based on application cost and possible reduced tax credit allocation based on government analysis of the deal.
⁶”But for” the use of TIF the development would not occur. Minn. Stat. § 469.174, et. Seq.