

Commercial, Industrial, and Public and Institutional (CIPI) Construction Permits in the Twin Cities Region: A Weak Market in 2010

August 2011

Despite moderate growth in office and retail construction, commercial and industrial building dropped, mostly due to a significant decline in commercial service activity. Largely driven by big chain stores, retail finally recovered in 2010 especially in developed suburbs. New medical office building gave a boost to office construction especially in the developing suburbs, while office construction shrank dramatically in the central cities. As the industrial sector shrank for the fifth year in a row, the value of construction permits recovered only in manufacturing. The central cities gained more ground in manufacturing at the expense of developed suburbs, while manufacturing permit values in developing suburbs recovered slightly. In contrast, office/warehouse activity shrank most in the developing suburbs while increasing in developed suburbs.

In the absence of federal stimulus dollars, public and institutional construction dropped considerably, shrinking much faster in 2010 than it did in 2009. Declining construction in government, school, and transportation structure projects reduced public and institutional activity. Construction increased only in public recreation and non-profit sectors. Developing suburbs, which were hardest hit by the decline in federal stimulus dollars, experienced the largest decline in public and institutional activity while the central cities fared much better than both the developed and developing suburbs.

Commercial, Industrial, and Public and Institutional Construction

The permit value total of commercial, industrial, and public and institutional construction projects declined four years in a row from its 2006 peak of \$2,222 million to \$610 million in 2010—a four-year drop of 73 percent. The total permit value for 2010 was 27 percent of the peak value. The total permit value of CIPI projects contracted by 39 percent between 2009 and 2010.

Permit values for commercial, industrial, and public and institutional uses amounted to \$286 million, \$34 million, and \$289 million, respectively. In contrast to 2009, the valuation of industrial uses in 2010 declined the least—down by 24 percent from \$45 million in 2009 to \$34 million in 2010. The values for commercial as well as

public and institutional permits declined more from 2009 to 2010 than they did between 2008 and 2009. The value of commercial permits shrank 40 percent from 2009 to 2010, compared to 24 percent the year before. The total permit value of public and institutional projects decreased by 41 percent in the same period, compared to a decline of 14 percent between 2008 and 2009.

Figure 2: Commercial, Industrial, and Public and Institutional Permit Values (in millions of 2010 dollars)

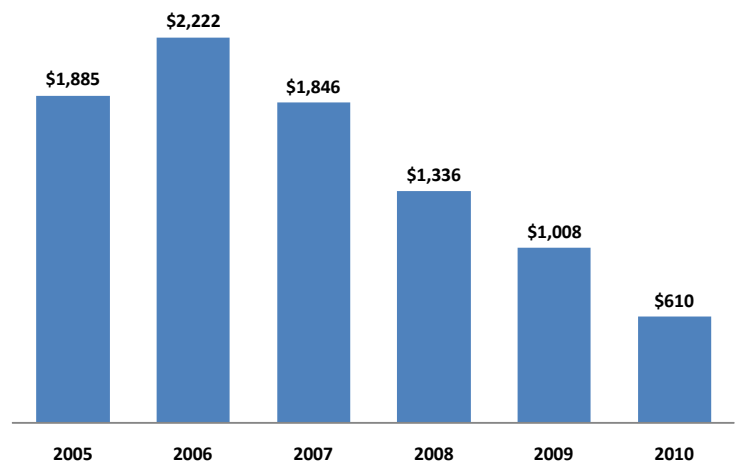
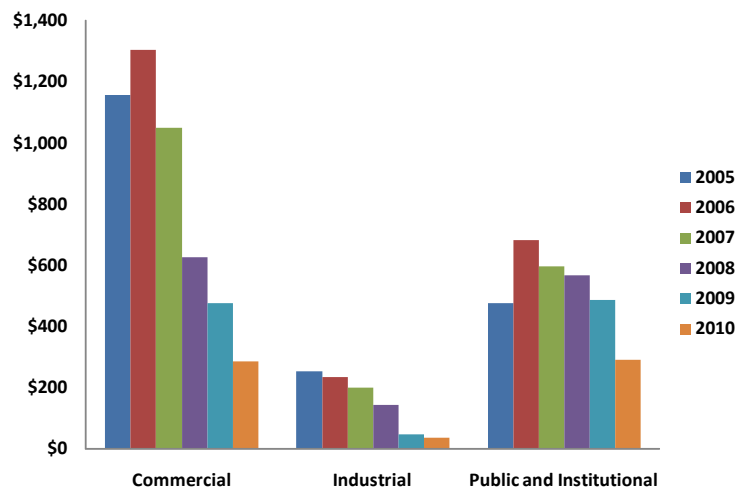


Figure 3: Commercial, Industrial, and Public and Institutional Permit Values (in millions of 2010 dollars) by Type



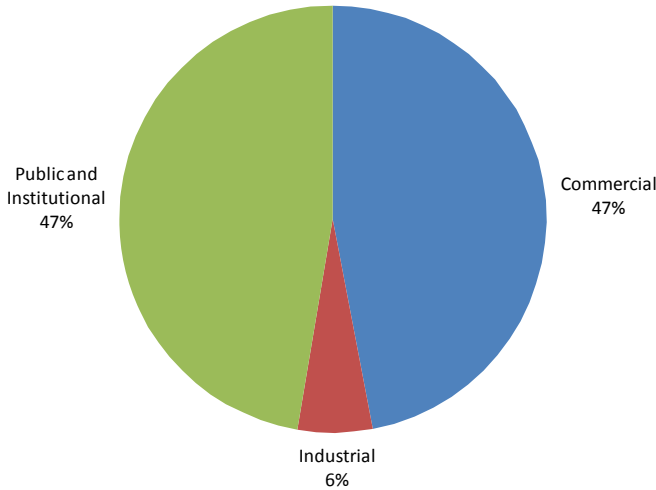
The relative shares of commercial, industrial, and public and institutional construction projects in the region's total CIPI value did not change much from 2009 to 2010. The commercial share of the region's total CIPI

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construction permit value stayed the same at 47 percent. The share of public and institutional declined slightly from 48 percent in 2009 to 47 percent in 2010. The share of the industrial sector went up slightly from five percent in 2009 to six percent in 2010.

Figure 4: Share of Commercial, Industrial, and Public and Institutional Permit Values by Type, 2010



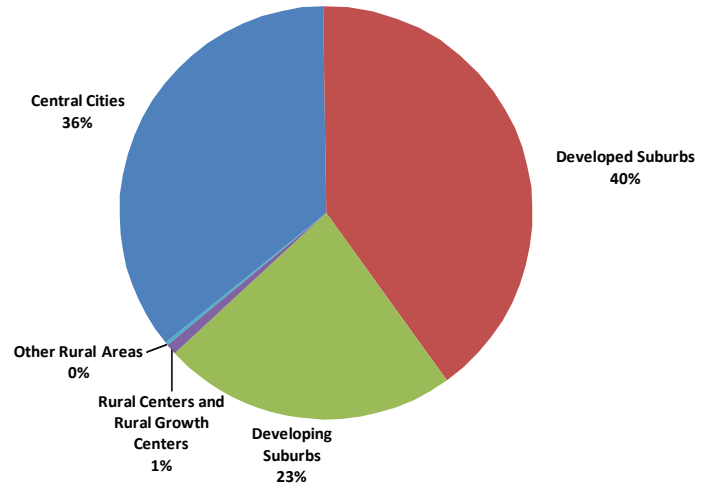
The regional distribution of CIPI permit totals changed from 2009 to 2010. The relative shares of the central cities and developing suburbs declined, while the share of developed suburbs increased. The total value of permits in the central cities shrank by 52 percent from \$456 million to \$217 million, bringing the share of the central cities from 45 percent in 2009 down to 36 percent in 2010. The total value of permits issued by developing suburbs in 2010—\$140 million—was half of its value in 2009. As a result, the regional share of developing suburbs went down from 28 percent in 2009 to 23 percent in 2010. Although the total value of

Figure 5: Permit Values of Commercial, Industrial, and Public and Institutional Construction by Planning Area,

Planning Area	Permit Value
Central Cities	\$216,907,451
Developed Suburbs	245,801,396
Developing Suburbs	140,194,221
Rural Centers and Rural Growth Centers	5,157,049
Other Rural Areas	1,562,179
Grand Total	\$609,622,296

permits in developed suburbs increased by only one percent (from \$244 million in 2009 to \$246 million in 2010), their relative share in the region grew significantly from 24 percent in 2009 to 40 percent in 2010.

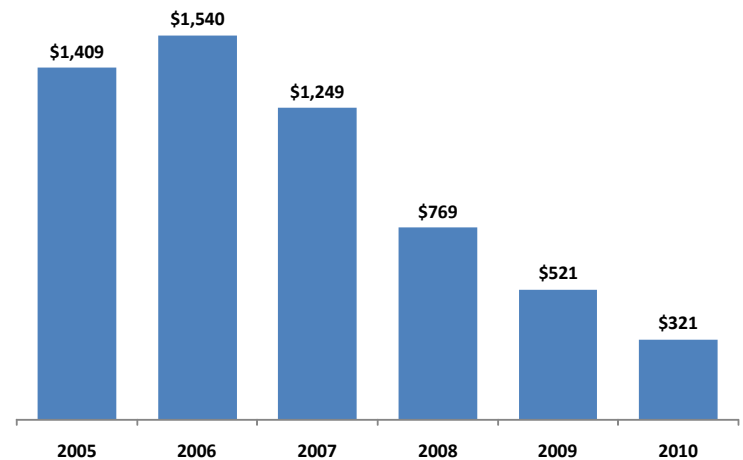
Figure 6: Share of Total Commercial, Industrial, and Public and Institutional Construction by Planning Area, 2010



Commercial and Industrial Construction

The permit value for commercial and industrial construction projects declined for the fourth year in a row from a peak value of \$1.5 billion in 2006. The total permit value for these projects declined by 38 percent to

Figure 7: Commercial and Industrial Building Permit Values (in millions of 2010 dollars)



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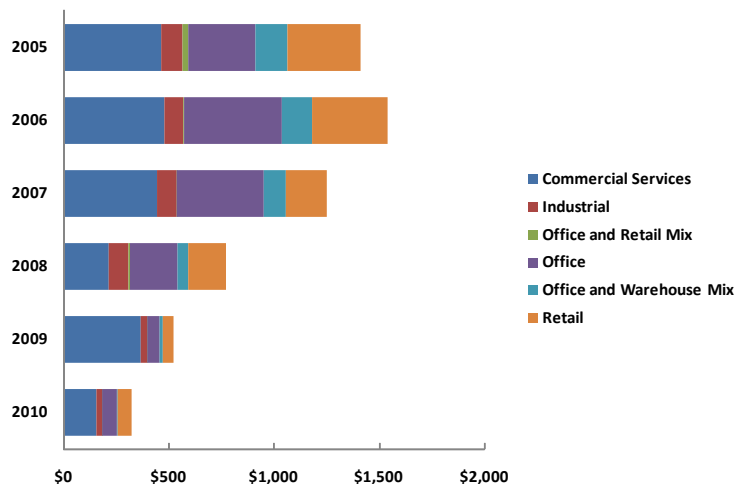
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\$321 million from \$521 in 2009. This compares to a decline of 32 percent in the previous year. The value of commercial and industrial projects in 2010 was only 21 percent of its peak value in 2006.

Between 2005 and 2010, the relative share of commercial and industrial permit value in the region's CIPI total declined. Compared to 2005, when the share of CI construction activity was three times the corresponding share for the PI projects, the relative shares of CI and PI projects—53 and 47 percent, respectively—were more comparable in 2010.

The shrinking value of commercial service permits drove much of the decline between 2009 and 2010. Permit values in commercial services plummeted from \$364 million in 2009 to \$152 million in 2010—a drop of 58 percent. Office and retail construction bounced back to some extent, but the increase in permit values in these sectors was not large enough to offset the decline in the value of commercial services permits. Permits issued for industrial activity excluding office/warehouse projects also declined, by nine percent, from \$32 million in 2009 to \$29 million in 2010. Similarly, office/warehouse construction decreased as the total value of permits issued for office/warehouse construction went from \$13 million in 2009 to \$5 million in 2010.

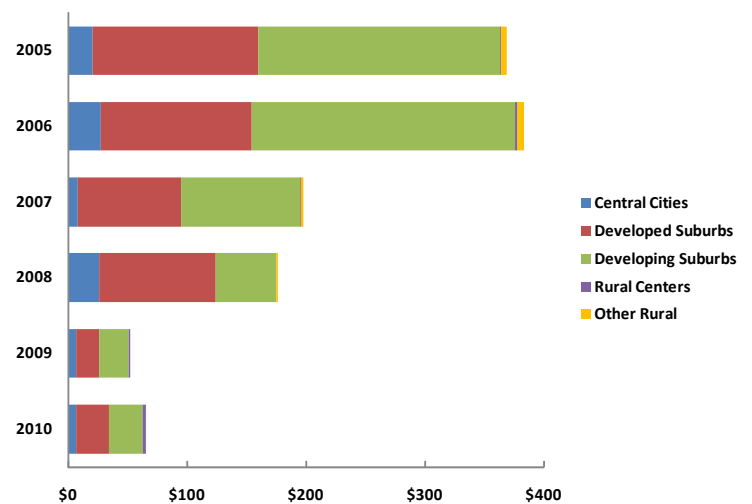
Figure 8: Commercial and Industrial Permit Values (in millions of 2010 dollars) by Use



Commercial Highlights

The steady decline of the retail sector after its peak year of 2006 finally came to an end as the permit value of retail construction rose to \$65 million in 2010 after bottoming out at \$52 million in 2009. Big chain stores such as Costco, Menards, Target, and Walgreens drove most of the retail construction

Figure 9: Retail Permit Values (in millions of 2010 dollars) by Planning Area



Retail construction picked up mostly in the region's developed suburbs. The total value of retail permits in these suburbs went up 41 percent from \$20 million in 2009 to \$28 million in 2010. The total value of retail permits issued by developed suburbs amounted to 43 percent of the region's total retail permit value—up from 38 percent in 2009. The total value of retail permits issued by Burnsville alone accounted for 73 percent of all retail permits issued by developed suburbs.

Developing suburbs also experienced an increase in the total value of their retail construction permits. This total went up by 12 percent from \$25 million in 2009 to \$28 million in 2010. Since the region's retail permit total grew twice as fast as the total in developing suburbs, the regional share of developing suburbs shrank from 48 percent in 2009 to 43 percent in 2010. Eden Prairie issued about a third of the total value of retail permits issued by developing suburbs. The total value of retail construction permits in the central cities did not change much and stayed around \$6 million in 2010. The central

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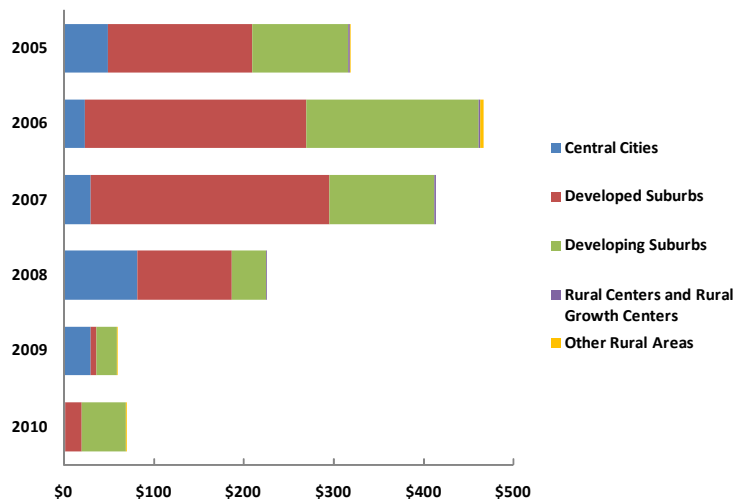
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cities accounted for only 10 percent of the region’s total retail construction value.

Office construction picked up by 18 percent between 2009 and 2010 from \$59 to \$69 million. In 2010, the total permit value of office construction was 15 percent of what it was in the peak year of 2006. The permit value of medical offices constituted 68 percent of the total office permit value in 2010.

Most of the increase in the total value of office construction permits came from the developing suburbs. These suburbs more than doubled the total value of their office permits from \$23 to \$50 million between 2009 and 2010—significantly increasing their share of the regional total from 39 percent to 72 percent. Construction activity in medical offices boosted the total office permit values in the developing suburbs. These suburbs accounted for 82 percent of the total medical office permit values in the metro. One project in Ramsey—Allina Ramsey Medical Clinic—alone constituted roughly a third of the total value of office permits in the metro in 2010.

Figure 10: Office Permit Values (in millions of 2010 dollars) by Planning Area



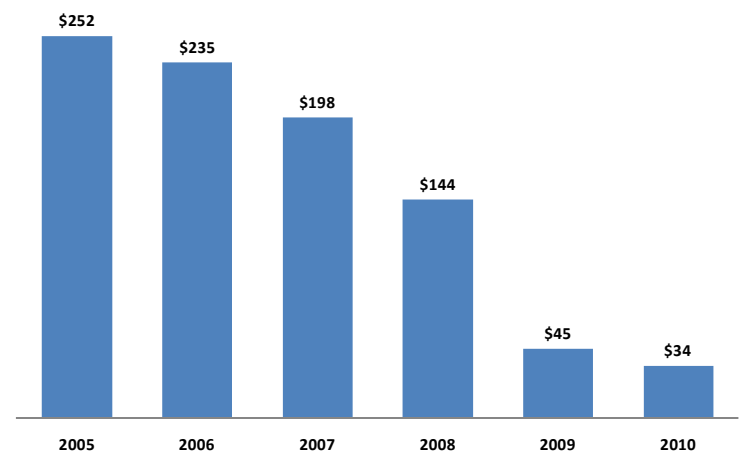
The central cities stood out in the region with respect to office construction as their permit values continued to contract from the peak of \$81 million in 2008. The total value of permits for office construction in the central cities shrank from \$29 million in 2009 to less than a million dollars in 2010—bringing the share of the central

cities down to one percent from 50 percent. Continuing vacancies in the office markets of the central business districts contributed to the absence of new construction activity in the central cities. In contrast, developed suburbs nearly tripled the total value of their permits from \$6 million in 2009 to \$18 million in 2010, lifting their share from 11 percent to 26 percent.

Industrial Highlights

The total value of industrial permits shrank for the fifth year in a row to \$34 million in 2010, down from \$45 million in 2009. This was just 14 percent of its peak value of \$252 million in 2005. Manufacturing stood out among all industrial sectors. Its total permit value almost doubled, from \$11 million to \$22 million between 2009 and 2010, while the totals for all other industrial sectors declined considerably. As a result, the relative share of manufacturing within the industrial sector jumped up from a quarter of the total in 2009 to 63 percent of the industrial total in 2010. The value of permits issued for warehouse construction declined the most, from \$15 million in 2009 to \$5 million in 2010—a drop of 67 percent—bringing the share of total warehouse construction permit values in the regional total from 33 percent in 2009 to 14 percent in 2010. Similarly, permit values for office/warehouse construction dropped by 61 percent from \$13 to \$5 million between 2009 and 2010, pulling down this sector’s share from 29 to 15 percent.

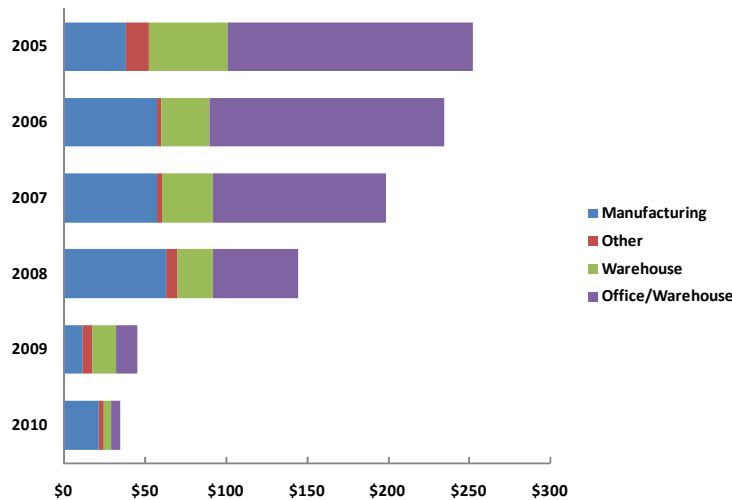
Figure 11: Industrial Permit Values (in millions of 2010 dollars)



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Figure 12: Industrial Permit Values (in millions of 2010 dollars) by Type



The total value of manufacturing permits in 2010 (\$22 million) was 34 percent of its peak value of \$62 million in 2008. In contrast to the 2008-2009 period, when the total value of manufacturing permits in the region plummeted by 82 percent, this value jumped 91 percent from \$11 million in 2009 to \$22 million in 2010. As a result, the share of the manufacturing sector in the regional value of industrial permits increased from 25 percent in 2009 to 63 percent in 2010.

The regional distribution of manufacturing permits changed considerably between 2009 and 2010. The central cities gained significant ground as the value of their permits increased from none in 2009 to \$12 million in 2010. The largest manufacturing permit in the region was issued in the central cities for Baldinger Bakery in St. Paul, a major supplier of buns to fast food companies such as McDonald's and Arby's. The permits for this project alone accounted for 99 percent of all manufacturing permits issued by the central cities. The share of the central cities in the region's total manufacturing permits went up to 57 percent in 2010.

Developed suburbs were the only area in the region where the value of manufacturing permits shrank. In contrast to 2009, when developed suburbs experienced some growth in their manufacturing construction, their permit value declined from \$8 million to \$4 million between 2009 and 2010. In contrast, manufacturing

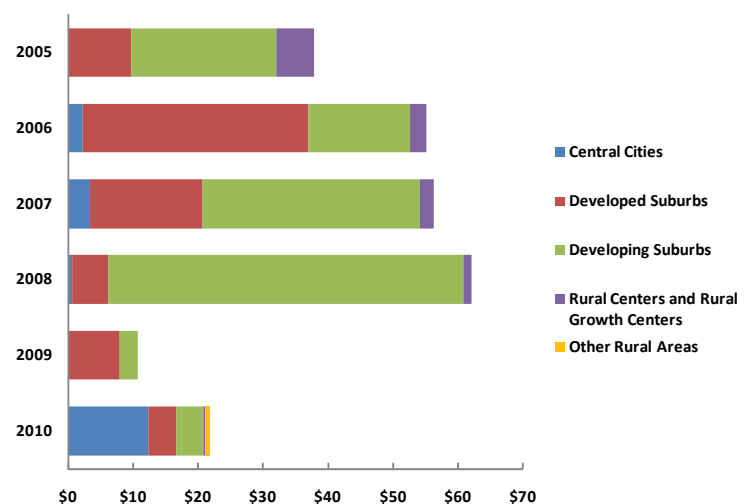
permit values in developing suburbs recovered a bit in 2010 following a dramatic decline from a peak of \$55 million in 2008 to \$3 million in 2009. The total value of manufacturing permits in developing suburbs in 2010 was \$4 million—only eight percent of its peak value in 2008.



Baldinger Bakery, St. Paul. Photo by Metropolitan Council.

In 2010, the office/warehouse sector shrank to three percent of its 2005 peak value of \$151 million to \$5 million in 2010—down 61 percent from \$13 million in 2009. In 2010, there were only three construction projects in this sector, compared to 35 in 2008. This sector accounted for 15 percent of the region's total industrial permit value in 2010—down from 29 percent in 2009. The total value of office/warehouse permits declined most in developing suburbs—from \$8 million in 2009 to \$1 million in 2010—pulling down the share of developing suburb office/warehouse permit value from

Figure 13: Manufacturing Permit Values (in millions of 2010 dollars) by Planning Area

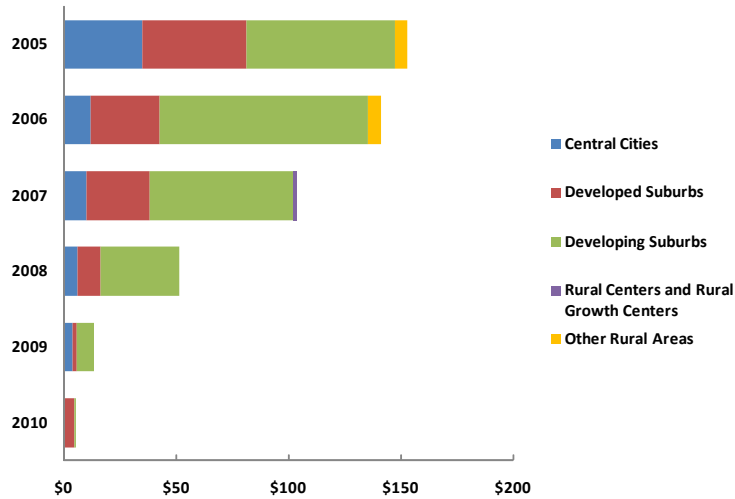


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58 percent in 2009 to 15 percent in 2010. In contrast, the corresponding share for developed suburbs rose from 14 to 85 percent during the same period as the total value of office/warehouse permit value increased from \$2 to \$4 million in these suburbs.

Figure 14: Office/Warehouse Permit Values (in millions of 2010 dollars) by Planning Area



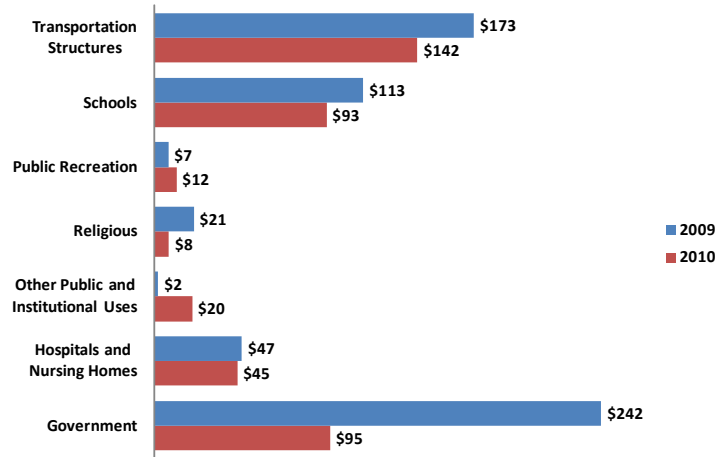
Public and Institutional Construction

The total permit value of public and institutional (PI) projects went down from \$487 million in 2009 to \$289 million in 2010.¹ This total declined more steeply between 2009 and 2010 than the year before—by 41 percent compared to 14 percent between 2008 and 2009—as the federal stimulus funding ended in 2010. The total permit value of PI projects for 2010 was 42 percent of the total in the peak year of 2006. The 2010 total constituted 47 percent of the total value of all non-residential construction permits—down slightly from 48 percent in 2009. Significant decline in the value of government, school and transportation structure projects pulled down the overall permit value for PI projects. Other public and institutional uses and public recreation were the only two sectors where the total permit values increased.

¹This total excludes the permit values of airport projects. While airport projects create employment, their impact on land use tends to be inconsequential because they are limited to fixed airport boundaries. Including airport projects in public and institutional project totals artificially inflates the share of developed areas, which host most of the region’s airports, in the region’s PI totals. This report includes the value of airport projects only in evaluating the total project value of transportation structures.

²Note that the 2009-2010 chart that documents public and institutional projects by type includes government as a single entity as opposed to the 2008-2009 chart which breaks down government activities into its subcomponents—government offices and public works.

Figure 15: Public and Institutional Permit Values by Type (in millions of 2010 dollars)



The total value of government construction permits declined by 61 percent from \$242 million in 2009 to \$95 million in 2010.² The decline would have been much more pronounced had it not been for the construction of an FBI field office in Brooklyn Center. At \$42 million—the largest permit value in 2010—the total permit value for this project constituted 44 percent of the total value of all government construction permits in 2010.



FBI Field Office, Brooklyn Center. Photo by Metropolitan Council.

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There was also a significant decrease in the total value of construction permits issued for schools. This total went down by 17 percent from \$113 to \$93 million between 2009 and 2010. Two projects at the University of St. Thomas, with a combined permit value of \$47 million, accounted for half of the total value of school construction permits. The permit value of K-12 school projects amounted to \$22 million—23 percent of the total value of school permits.



University of St. Thomas, St. Paul. Photo by Metropolitan Council.

The total permit value of transportation structures declined 18 percent from \$173 million in 2009 to \$142 million in 2010. The value of transit-related construction permits shrank significantly—down 77 percent from \$55 million in 2009 to \$12 million in 2010.

In contrast, permit values issued for other public and institutional uses increased more than eleven-fold from \$1.8 million in 2009 to \$20 million in 2010. All of this construction activity came from non-profit projects. St. Paul accounted for 96 percent of the total permit value for other public and institutional uses. The two largest projects in St. Paul were on the University of St. Thomas campus.

Permits by Planning Area

The drop in federal stimulus dollars changed the distribution of PI project values across planning areas. Developing suburbs were hardest hit by the decline in stimulus dollars that had boosted government projects. The total permit value of government projects in developing suburbs declined from \$154 million in 2009 to \$6 million in 2010. The same total in the central cities declined much less—from \$12 to \$7 million during the same period. In developed suburbs, in contrast, the value of government permits increased from \$72 to \$81 million.

As a result of this geographically uneven decline in the permit value of government projects, developing suburbs experienced the largest decline in the total value of the public and institutional permits issued. The total PI permit value in developing suburbs dropped from \$186 million in 2009 to \$40 million in 2010—down by 79 percent compared to a decrease of 41 percent in the region. As a result, the relative share of developing suburbs in the region's total PI permit values declined for the second year in a row from 38 percent in 2009 to 14 percent in 2010. Construction activity in schools and in hospitals and nursing homes contributed most to the permit values in developing suburbs in 2010.

Unlike last year, the central cities performed better in 2010 than both the developed and developing suburbs in terms of the value of their public and institutional construction permits. Their total went down by only one percent to \$137 million in 2010 even as the region's total public and institutional permit value declined by 41 percent. As a result, the share of the central cities in the region's total value of PI permits increased significantly from 28 percent in 2009 to 47 percent in 2010. Construction activity in schools—especially the University of St. Thomas project—as well as in hospitals and nursing homes kept permit values relatively steady in the central cities.

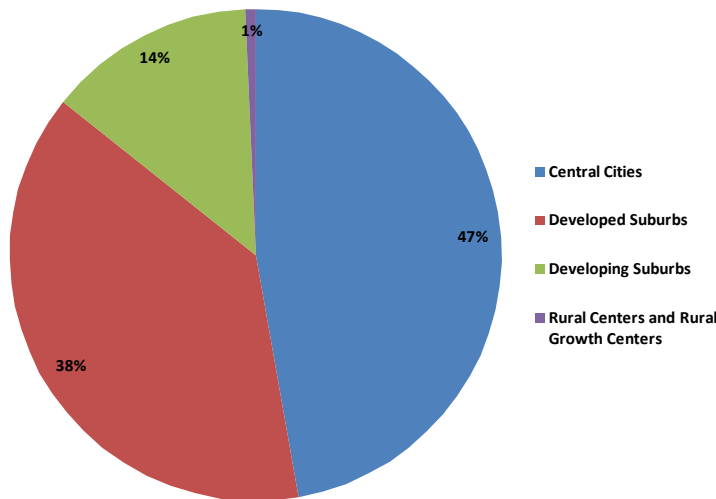
The relative share of developed suburbs in PI permits continued to climb for the second year in a row—from 29 percent in 2009 to 38 percent in 2010—despite a 21 percent decline in the value of PI permits issued by these suburbs from \$141 to \$111 million. Government construction activity—especially the construction of a

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new FBI field office in Brooklyn Center—was crucial to the totals in developed suburbs. The total permit value of government projects in developed suburbs constituted 73 percent of the value for all the PI permits issued by developed suburbs. The developed suburbs contributed 86 percent of the total value of all permits issued for government construction projects.

Figure 16: Share of Public and Institutional Permit Values (in millions), by Planning Area, 2010



Permits by County

The total value of commercial, industrial, and public and institutional permits declined in all of the counties with the exception of Scott County, where it stayed roughly the same. Once again, Hennepin County experienced the largest absolute drop in the total value of its CIPI permits—a total of \$182 million.³ The total value of CIPI permits in Hennepin County was 42 percent less than last year's total. Unlike in 2009, when the total value of CIPI permits hardly changed in Dakota County, in 2010 the percent decline in CIPI permit totals was the highest in Dakota County. This total fell 58 percent from \$148 million in 2009 to \$62 million in 2010.

The Ramsey County CIPI permit total decreased 29 percent from \$210 million to \$148 million between 2009

and 2010 compared to a contraction of eight percent in the previous year. The total value of CIPI permits declined for the second year in a row in Carver and Washington counties—by 48 percent from \$47 to \$24 million in the former and by 56 percent from \$56 million to \$25 million in the latter. Nonresidential construction activity also took a downturn in Anoka County in 2010 in contrast to 2009 when it held steady at the 2008 level. Anoka County's CIPI permit total shrank by a fifth from \$69 million in 2009 to \$56 million in 2010.

Figure 17: Commercial, Industrial, and Public and Institutional Permit Values (in millions of 2010 dollars) by County

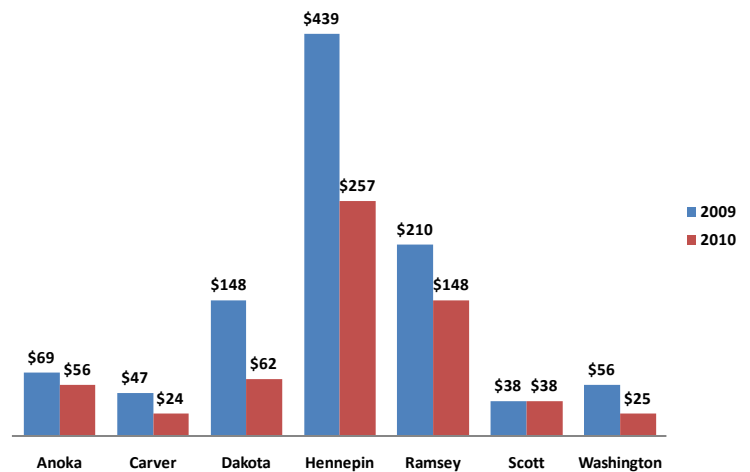
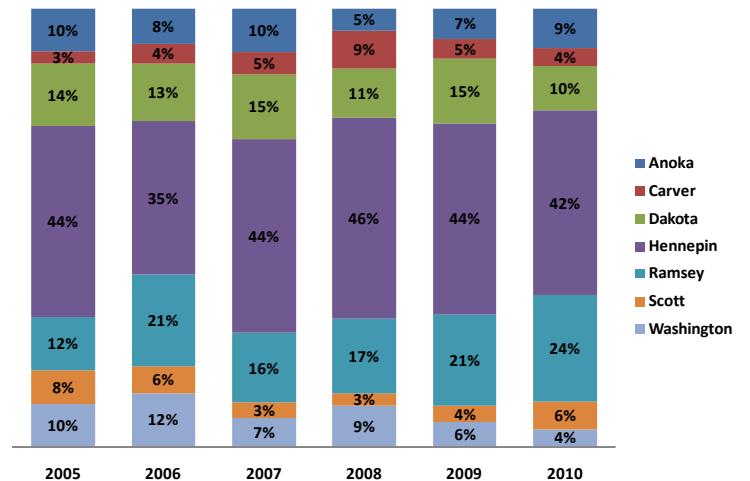


Figure 18: Share of Commercial, Industrial, and Public and Institutional Permit Values (in 2010 dollars) by County



³Note that the Target Field project, with a permit value of over \$257 million, boosted the total permit value for Hennepin County in 2009.

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The relative distribution of the region's CIPI total among counties did not change much from 2009 to 2010. Ramsey, Anoka and Scott counties increased their share slightly compared to Hennepin, Dakota, Carver and Washington counties, where the relative shares went down.

About the data

Measuring the volume of commercial, industrial and public construction activity over a given period of time is not straightforward. Some information sources that report on new developments focus on when construction started; some on how much development is underway at a point in time; some on when a structure is completed or occupied. In this report, projects are counted at the time local units of government issue building permits. No information on demolitions is included, so the data represent a gross construction volume, but not the net gain in property value. With annual updates, the data should be useful for assessing longer-range trends.

Multiple building permits may be issued for a given project, separate from the permit for the major structural work—for example, for foundation work, mechanical, electrical, and finishing work. Metropolitan Council has attempted to represent the permit valuation and square footage for all new projects and additions (if over \$100,000) and to avoid duplicate reporting of these. However, there may be some inconsistency because of the complexity of some projects and differences among local permit record-keeping systems. Where it was possible to differentiate, Council Research staff did not include permits that were only for remodeling, mechanical, electrical, plumbing, and finishing work.

Project "value" reflects the estimated cost of construction reported on the building permit. Permit values exclude some costs including land and landscaping, and are typically lower than market values of completed properties. City-to-city comparisons may not be entirely valid if there are differences in survey completeness or methods of permit valuation.

Other construction activity may have occurred on properties of state and federal jurisdictions that are not included in this report. The University of Minnesota, for

example, is not covered in Metropolitan Council's survey since it does not have to apply for building permits from local jurisdictions.

Occasionally a project will be put on hold after the building permit has been issued. All permits reported by local officials for this survey are included in Metropolitan Council's data base and in this report, regardless of status.

Data Collection Methods

The Metropolitan Council surveyed each city and township, requesting the following information:

- Building name or tenant (if unknown, may list developer)
- Building type
- Address
- Parcel identification number (PIN)
- Description of building use
- Square footage
- Permit value of building
- Month permitted
- New building or addition

To promote consistency and completeness, Metropolitan Council Research staff validated survey responses with Service Availability Charge (SAC) reports where possible. Additional information from SAC reports and other sources was incorporated where appropriate.

Council Research staff designated each listing as either "Commercial," "Industrial," or "Public and Institutional" based on descriptive information provided by survey respondents. The Public and Institutional category includes government offices, public works facilities, schools (public and private), hospitals and nursing homes, religious entities, public recreation structures, transit and other transportation facilities, and other institutions such as non-profit organizations and community centers.

The Minneapolis-St. Paul International Airport is not within the boundaries of a minor civil division. The Metropolitan Airports Commission provided data on

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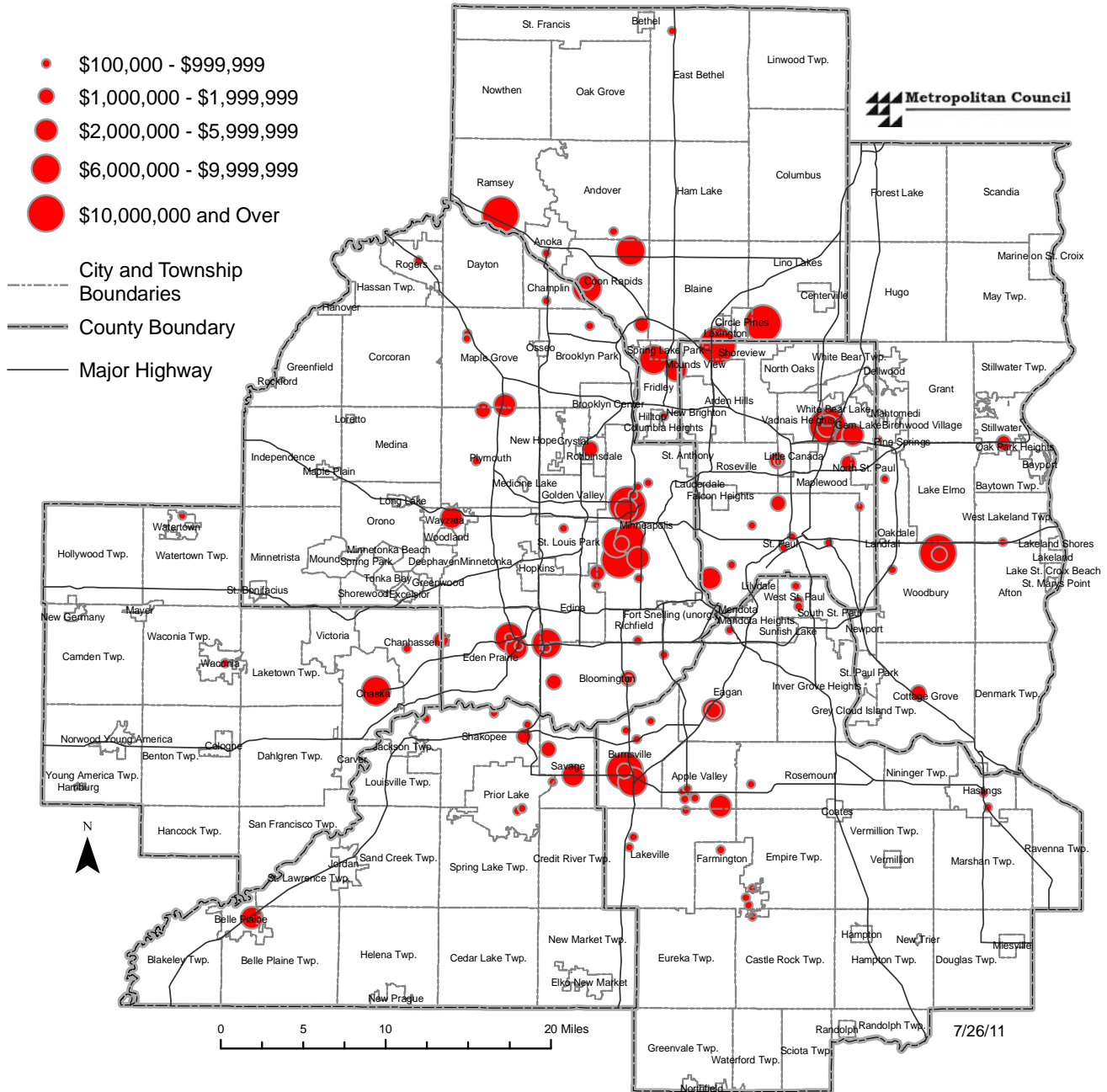
airport construction. Throughout this report, the total value of commercial, industrial, and public and institutional projects excludes the permit values of airport projects. While airport projects create employment, their impact on land use tends to be inconsequential because they are limited to fixed airport boundaries. Including airport projects in public and institutional construction project totals artificially inflates the share of developed areas, which host the region's airports, in the region's total permit values. This report includes the value of airport projects only when evaluating the total project value of transportation structures.

Metropolitan Council's Community Profiles, which provide extensive information on any city, township and county that is within the 7-county metropolitan area, are available at <http://www.metrocouncil.org/data>. Community Profiles include easily accessible charts and data on population, employment, housing, land use and transportation. For a detailed breakdown of all commercial, industrial, and public and institutional projects in all of the region's communities over multiple years, click the Land Use and Development tab under the Community Profiles.

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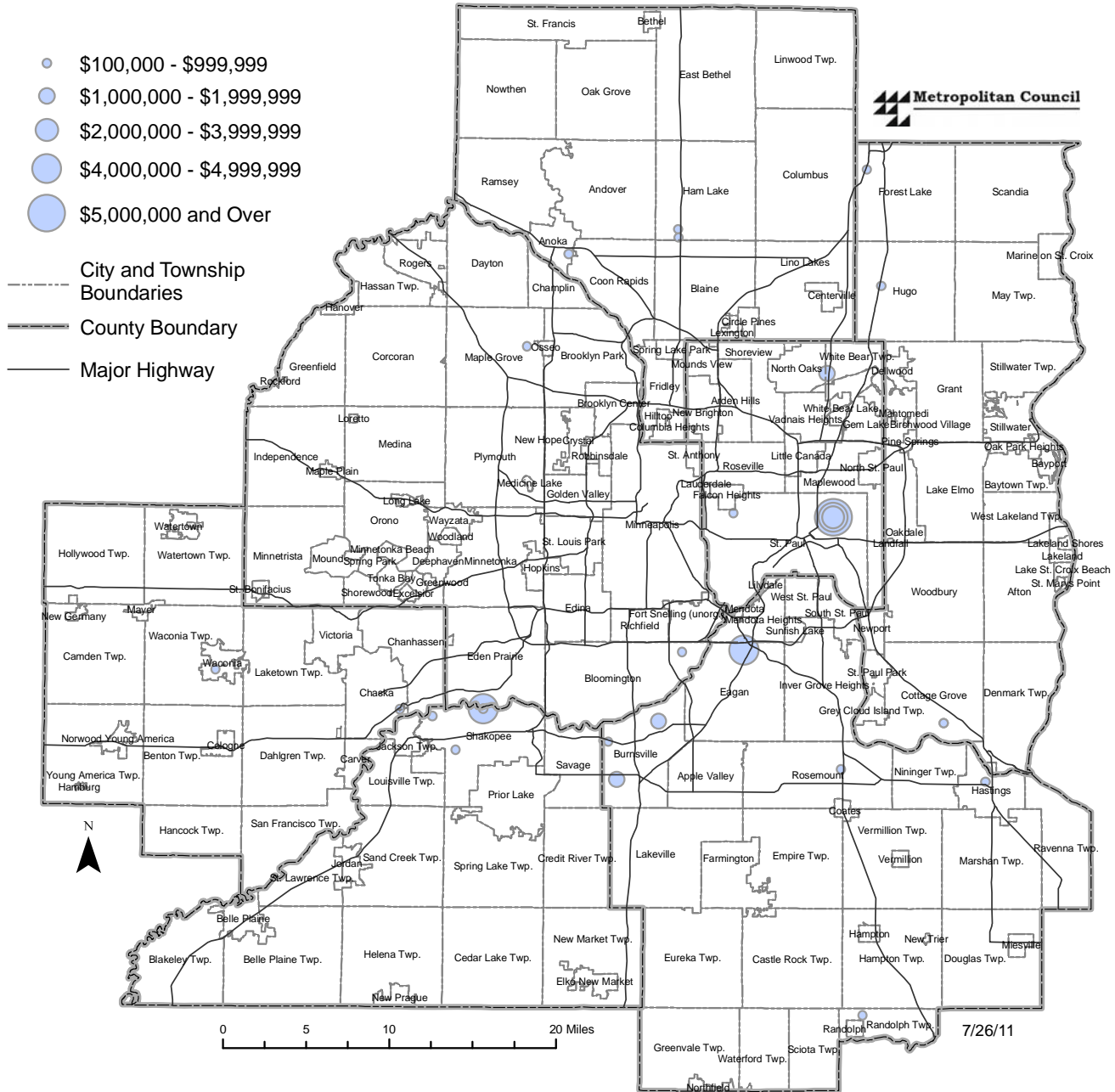
Value of Commercial Construction Added in 2010



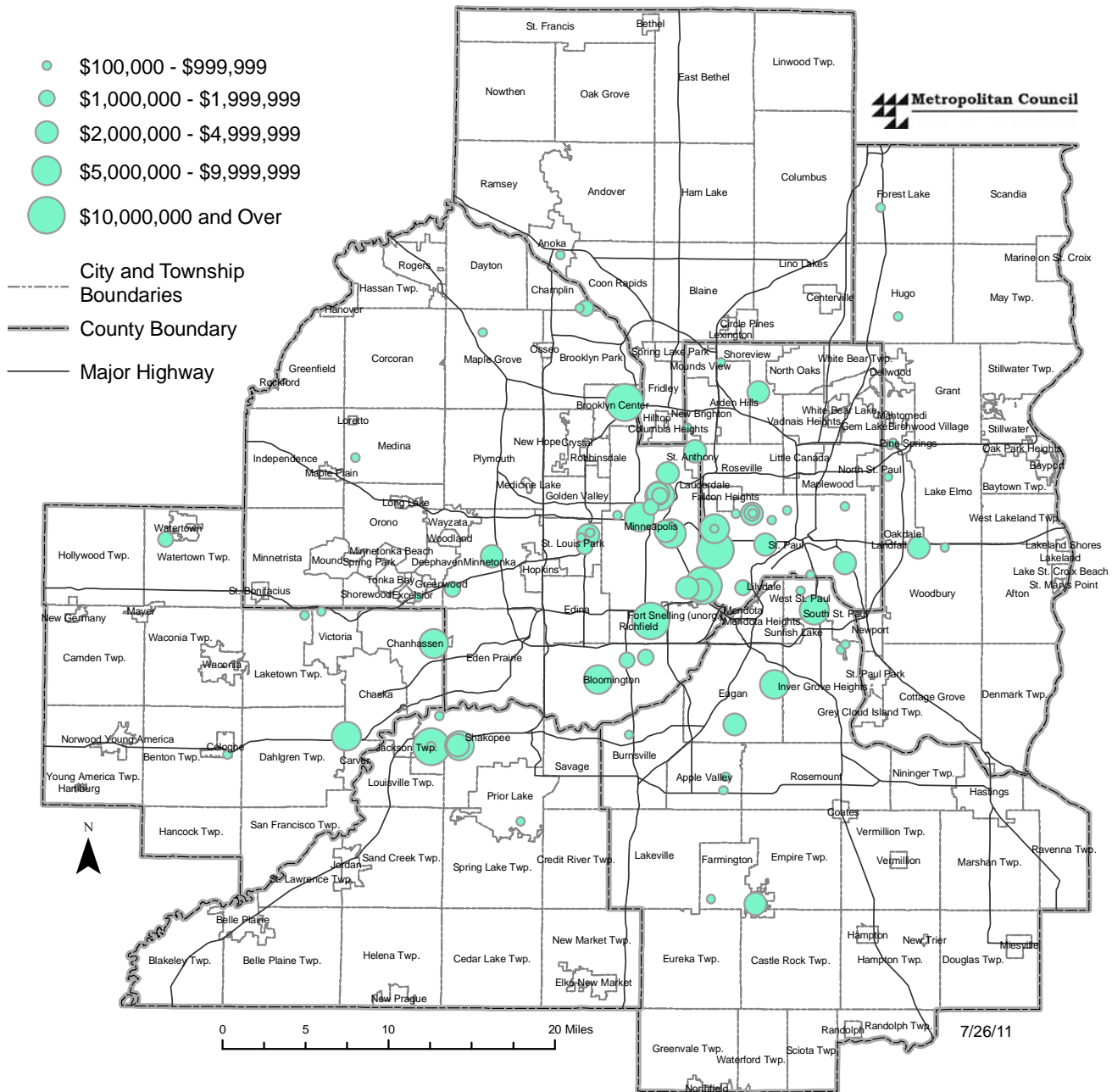
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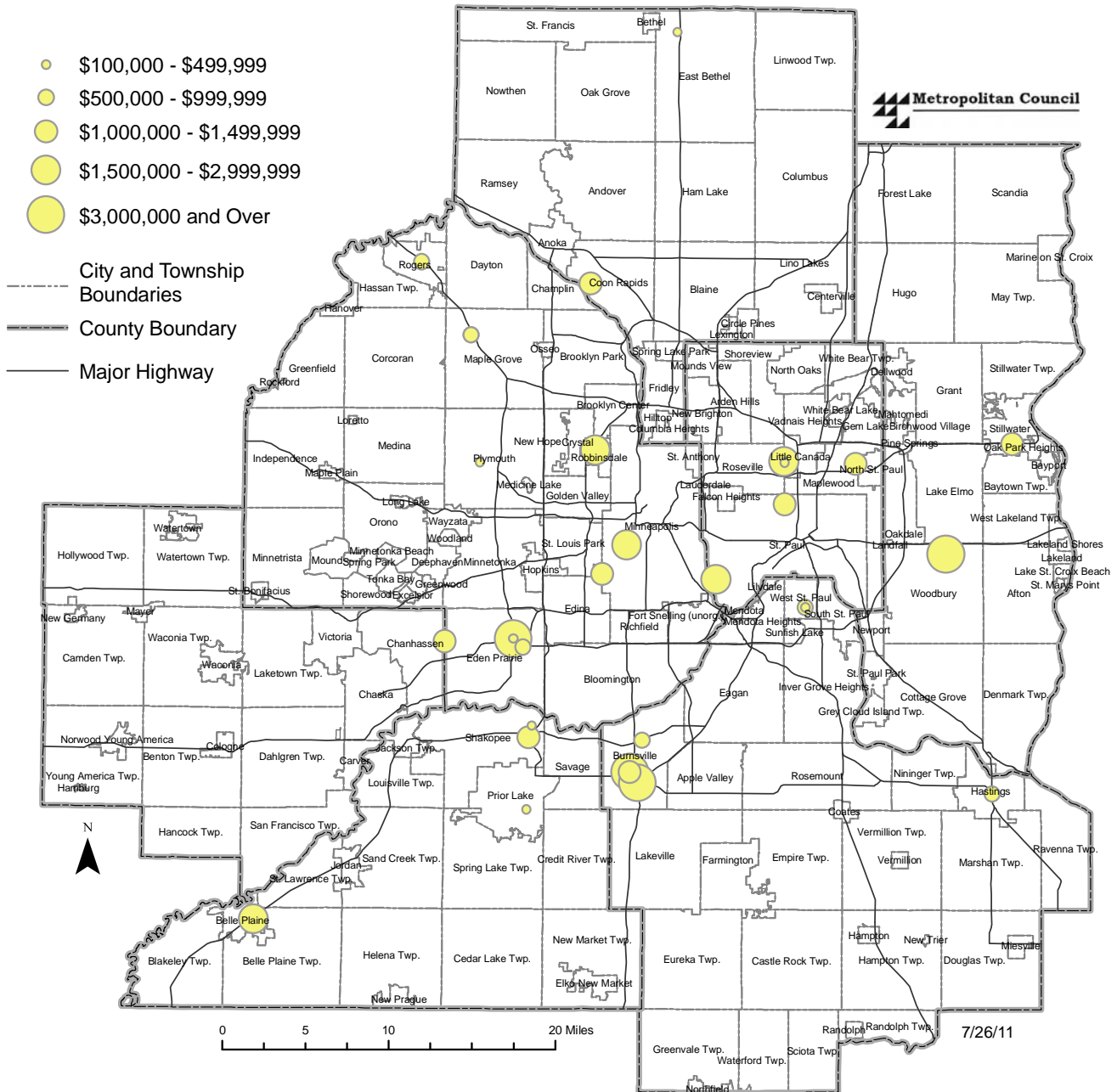
Value of Industrial Construction Added in 2010



Value of Public and Institutional Construction Added in 2010



Value of Retail Construction Added in 2010



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Value of Office Construction Added in 2010

