

MetroStats



Recent Commercial Construction Activity in the Twin Cities Region

March 2015

Key Findings

- Over half (54%) of the total permit value of nonresidential construction in the Twin Cities region came from the activity in the commercial sector, which totaled \$624 million in 2013.
- Steady growth in the total permit value of retail and office projects drove the overall growth of commercial construction in the region.
- Commercial construction activity increased in the region's central areas between 2010 and 2013, with total permit values in Suburban communities areas growing especially fast.
- Retail and medical office construction in 2013 has recovered and grown more quickly than other commercial subsectors.

About us

This *MetroStats* was written by the Regional Policy and Research team at the Metropolitan Council. We serve the Twin Cities region and your community by providing data, reports and technical assistance about demographic trends, development patterns and exploring regional issues that matter.

For more information, please contact us at research@metc.state.mn.us.

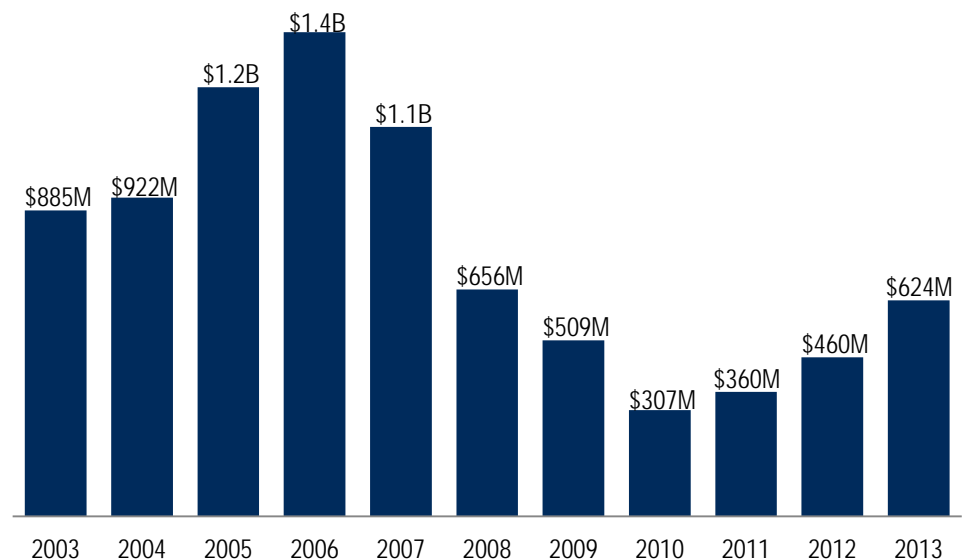
Download the data used in this report at <http://metro council.org/data>. Select "Building Permits, commercial, industrial and public" and select your geographic areas of interest.

Nonresidential construction is an umbrella term for construction activity within three major sectors—commercial, industrial, and public and institutional. For a general overview of nonresidential activity, please read our *MetroStats*, "[Recent Nonresidential Construction Activity in the Twin Cities Region \(pdf\)](#)".

In 2013, the total permit value of nonresidential construction in the Twin Cities region reached \$1.1 billion, the highest level of activity since 2010. Over half (54%) of this total permit value came from the commercial sector.

Like nonresidential construction overall, the total permit value for commercial construction in the region peaked in 2006 (\$1.4 billion) then fell considerably during the Great Recession (Figure 1). In 2013, the total permit value reached \$624 million, up 36% from the 2012 total (\$460 million). The 2013 total is more than double the 2010 total (\$307 million). Since 2003, the Twin Cities region issued over \$8 billion in building permits for commercial construction projects.

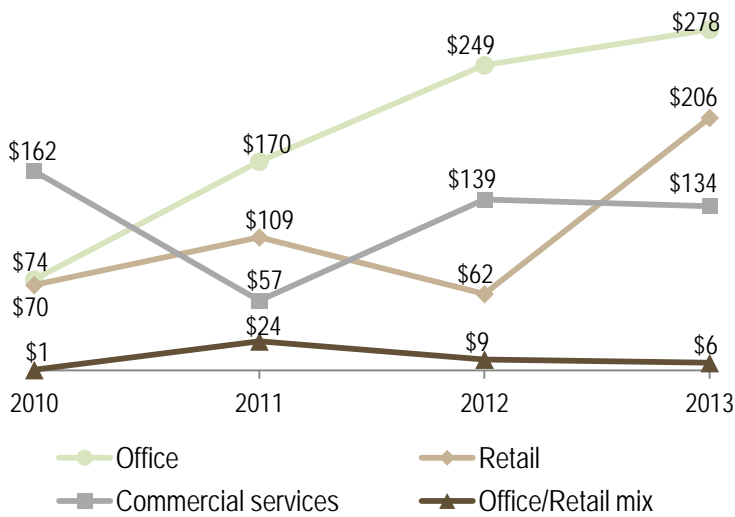
Figure 1. Total permit value of commercial construction in the Twin Cities region (2013 dollars)



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2003-2013.

The commercial sector breaks down into several subsector categories: office, retail, commercial services and office/retail projects.

Figure 2. Total permit value of commercial construction by subsector (in millions of 2013 dollars)



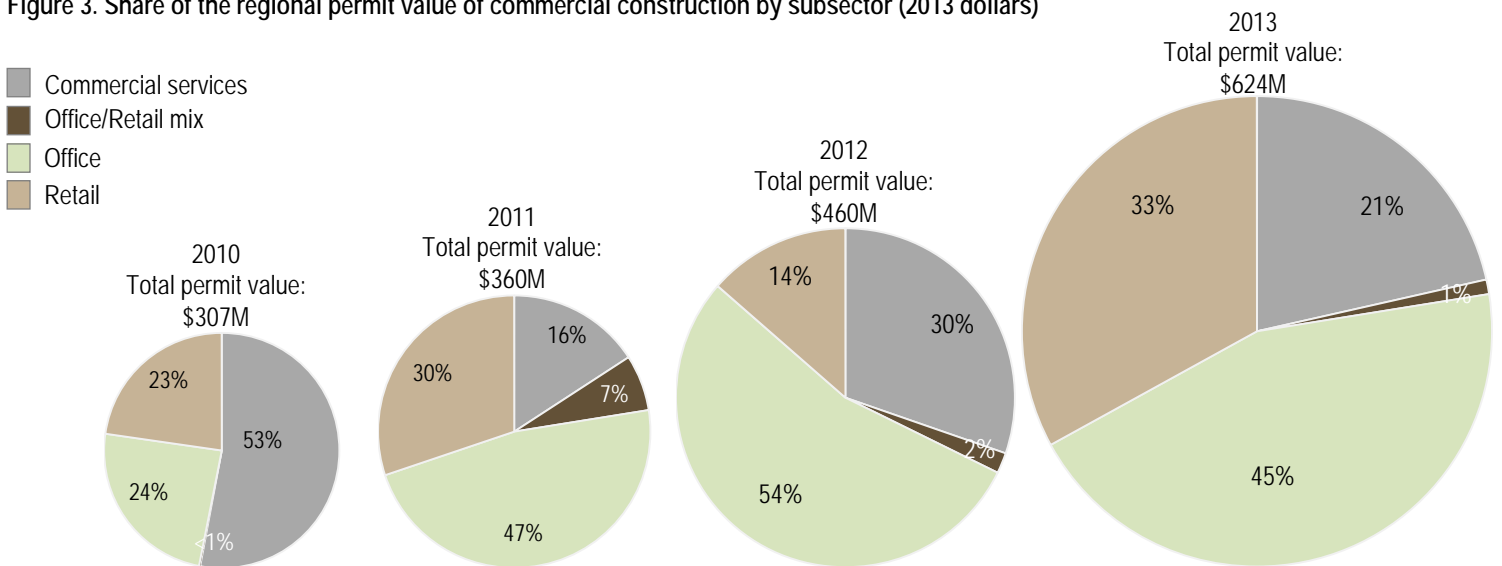
Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2013.

2013. Commercial services went from 53% in 2010 to 21% in 2013, as retail grew over the same period. Office construction has remained fairly consistent in the past four years, with mixed-use commercial construction holding accounting for only 1% of the total permit value in 2013.

Retail and office projects drove the overall growth in total permit value for commercial construction between 2010 and 2013. Retail permit values nearly tripled from \$70 million in 2010 to \$206 million in 2013 (Figure 2). Office permit values more than tripled between 2010 and 2013, continuing their steady recovery since 2010. The total permit value of commercial service construction was more volatile in the post-recession years, with a net decline of 18%. Office/retail construction was more consistent and strong prior to the recession, averaging \$18 million value between 2003 and 2006. Despite a high total permit value in 2011, office/retail mix commercial construction has not picked up at the pace of other commercial construction in the region.

Accordingly, the share of each subsector within commercial construction changed between 2010 and

Figure 3. Share of the regional permit value of commercial construction by subsector (2013 dollars)



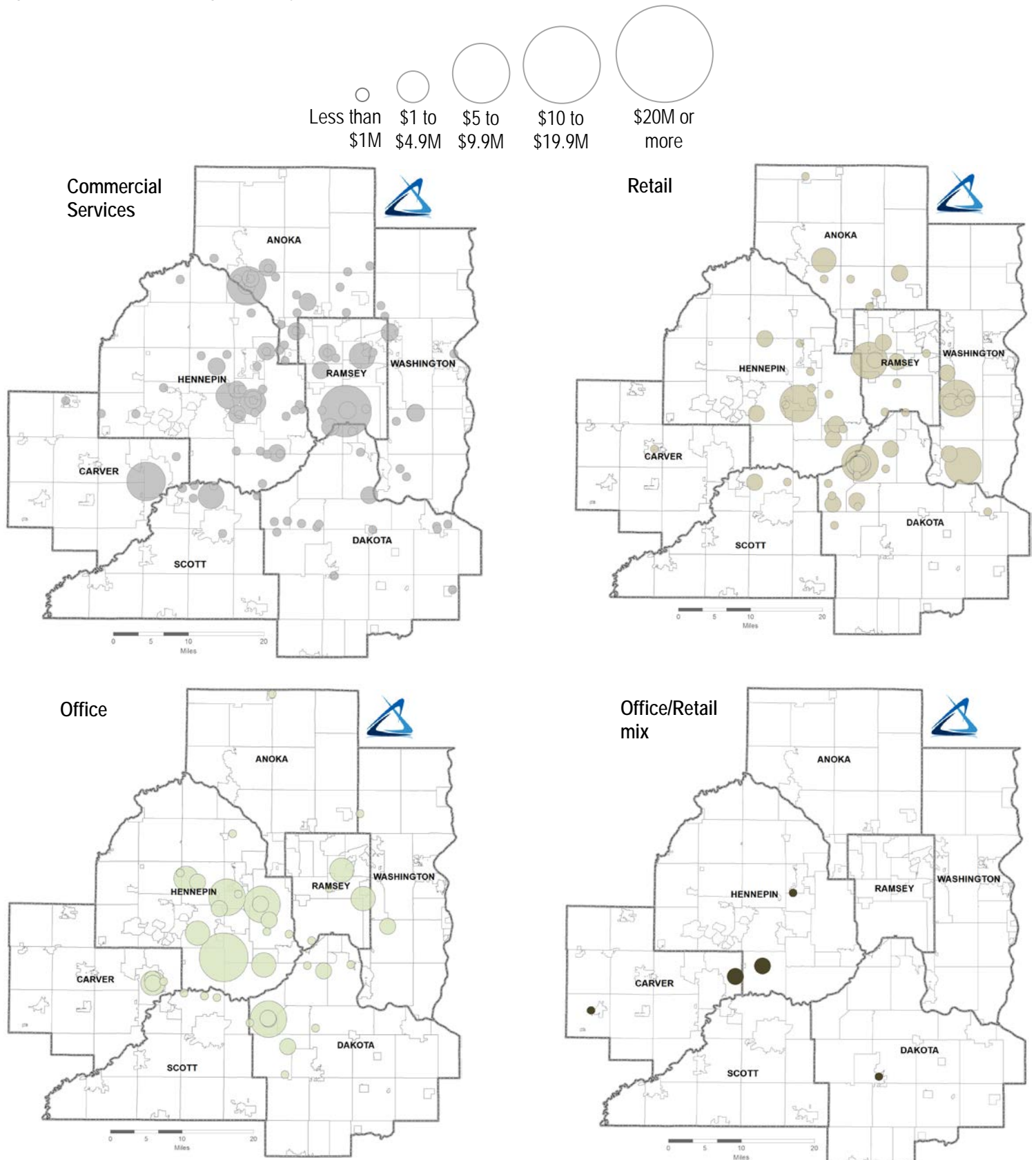
Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2013.

Commercial construction activity occurred in the region's center

Hennepin County accounted for over half (52%) of the region's total commercial permit value in 2013. The ten cities with the highest total commercial permit values in 2013 include Eden Prairie (\$120 million), Golden Valley (\$66M), Eagan (\$46M), Saint Paul (\$36M), Chaska (\$27M), Burnsville (\$26M), Minneapolis (\$25), Woodbury (\$23M), Minnetonka (\$21M) and Coon Rapids (\$20M).

Figure 4 shows the 215 commercial projects permitted across 64 cities in the Twin Cities region in 2013.

Figure 4. Commercial building permits by permit value and subsector, 2013



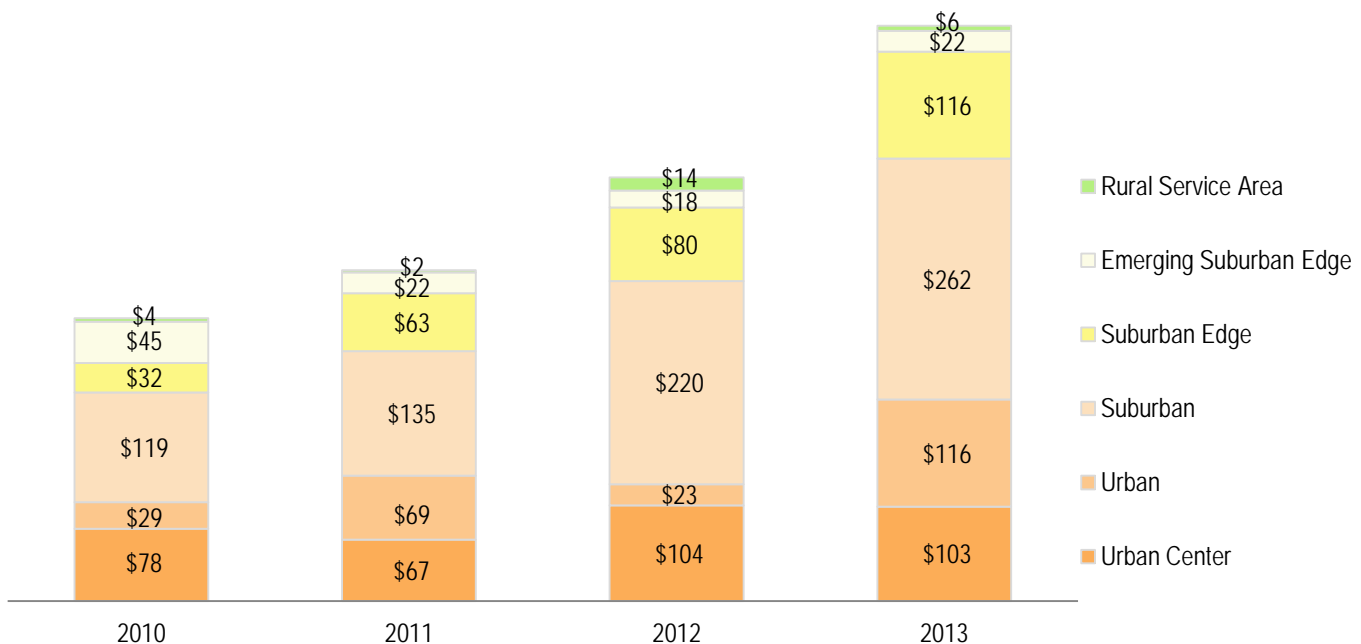
Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2013.

The seven-county region contains a wide variety of communities ranging from farming-based townships to densely developed downtown neighborhoods. Recognizing that one size does not fit all, we use *Thrive MSP 2040* Community Designations to group communities with similar characteristics in order to more effectively target policies. Each city and township in the region receives a designation based on their existing development patterns, common challenges and shared opportunities (read more about Community Designations in the regional development guide, *Thrive MSP 2040*—[pdf](#)).

All other Community Designations in the region, with the exception of Emerging Suburban Edge and Rural communities, experienced an overall increase in the total permit value of commercial construction between 2010 and 2013. While communities designated as Urban, Suburban Edge and Suburban grew over 100%, Urban Center communities grew more modestly in terms of total commercial permit value (Figure 5).

Specifically looking at growth and decline between 2012 and 2013, Urban communities underwent the most dramatic change, jumping up to \$116 million in 2013 from \$23 million in 2012. Suburban Edge communities also had a sizeable increase—45%—between 2012 and 2013, representing 19% of the region's total commercial permit value. However, the largest slice of the region's commercial construction activity was located in Suburban communities, accounting for 42% of all commercial activity in the region in 2013.

Figure 5. Total commercial permit value by *Thrive MSP 2040* Community Designations (in millions of 2013 dollars)



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2013. The region's Rural Service Area consists of Rural Centers, Diversified Rural, Rural Residential and Agricultural communities. The permit values of non-Council communities are excluded in Figure 5, and do not match the regional totals presented in Figure 2.

Office construction highlights

Office construction peaked in 2006 with a total permit value of \$500 million, and then dropped rapidly during the recession. After hitting a low of \$62 million in 2009, the recovery of office construction has been slow. In 2013, the total office permit value in the region reached \$278 million. However, the office construction market overall was inflated by one particularly large project—the UnitedHealth Group campus in Eden Prairie. In 2012, the permits related to this project totaled \$125 million, half of the regional total (\$249M). Similarly, in 2013, the permit total for the UnitedHealth Group campus was \$119 million, 42% of the regional total.

Figure 6. UnitedHealth Group in Eden Prairie, MN



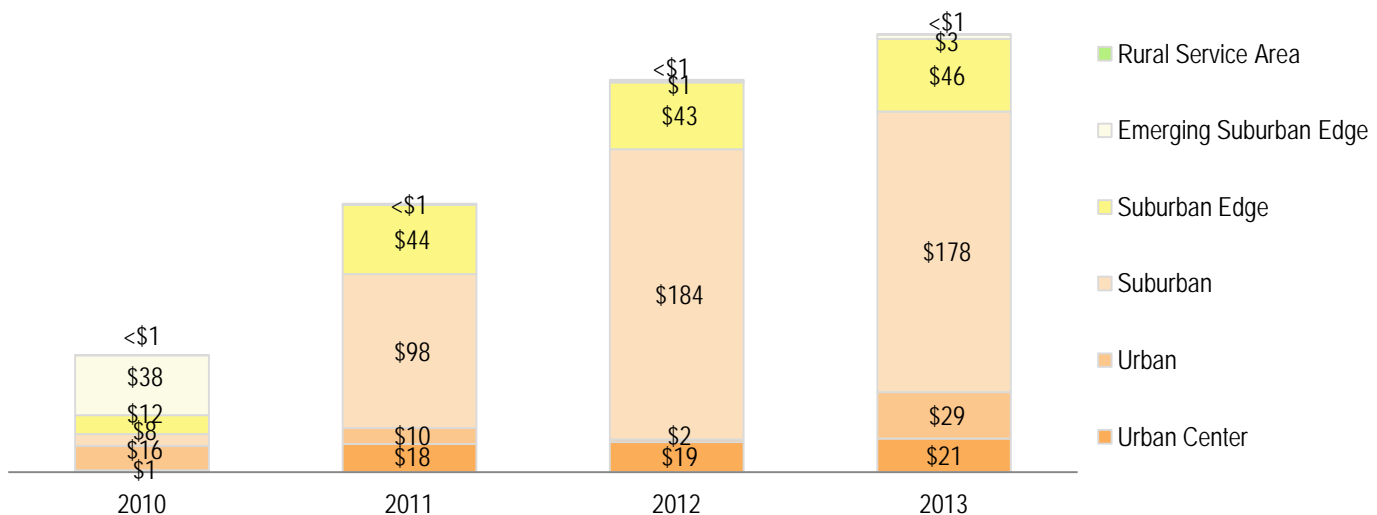
Photo Credit: [Finance & Commerce](#).

In 2012, the permits related to this project totaled \$125 million, half of the regional total (\$249M). Similarly, in 2013, the permit total for the UnitedHealth Group campus was \$119 million, 42% of the regional total.

Within the office subsector, the total permit value of medical office construction doubled between 2010 and 2013, going from \$51 million to \$106 million, respectively, an increase of 27%. This slightly outpaced other (non-medical) office construction, which went from \$24 million in 2010 to \$47 million in 2013 (not including the UnitedHealth Group project), an increase of 16%. In 2013, medical office construction was more than two-thirds (69%) of the total office permit value in the region, if the UnitedHealth Group campus is excluded (or more than a third—38%—if the project is included).

In 2013, Suburban communities had by far the largest share—64%—of the region’s office permit values at \$178 million—again the influence of the UnitedHealth Group project in 2012 and 2013 (Figure 7). Suburban Edge communities issued 17% of the region’s office permit value in 2013; almost half (49%) was medical office construction. Together, Urban Centers and Urban communities issued 18% of the region’s total office permit value in 2013. Just over a third (34%) came from medical office construction, including a sizeable permit for the Washburn Center for Children in Minneapolis (\$16M).

Figure 7. Total office permit value by Thrive MSP 2040 Community Designations (in millions of 2013 dollars)



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2013. The region’s Rural Service Area consists of Rural Centers, Diversified Rural, Rural Residential and Agricultural communities. The permit values of non-Council communities are excluded in Figure 7.

Retail construction highlights

The total permit value of retail construction totaled \$206 million region-wide in 2013. New construction of and additions to car dealerships represent about a third (30%) of retail construction activity. Wal-Mart’s expansion in the Twin Cities region was also noteworthy: the total value of the permits drawn for three new Wal-Mart stores amounted to \$29 million in 2013.

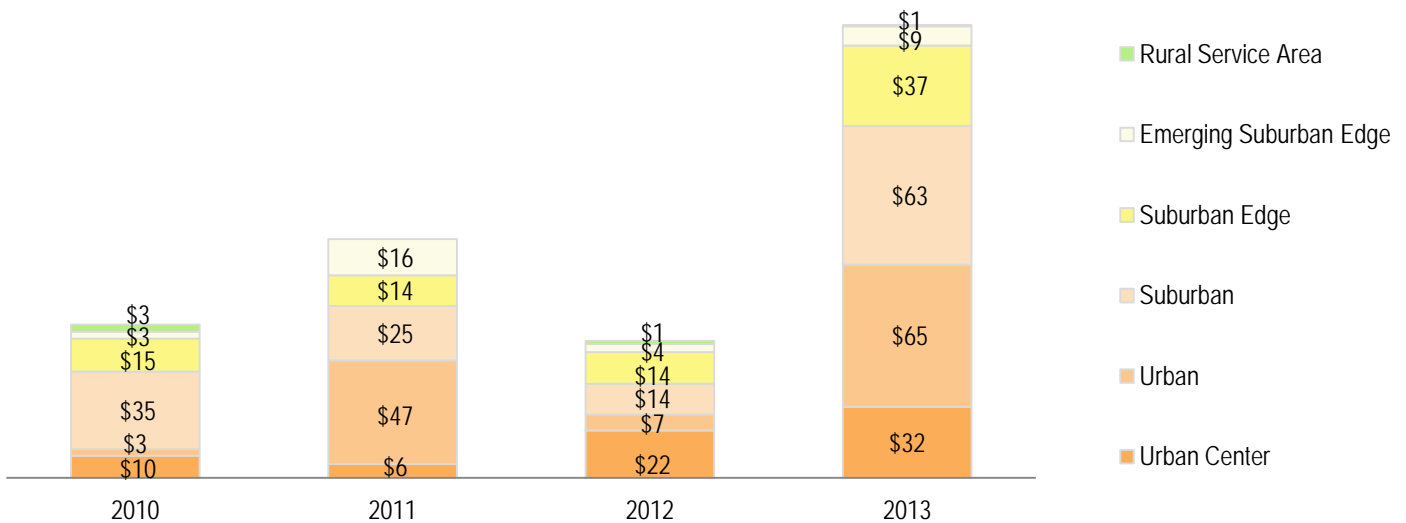
Urban and Suburban communities had the lion’s share of the region’s retail activity in 2013, each home to almost one-third of the region’s retail permit values—totaling \$65 million and \$63 million, respectively (Figure 9). Much of this growth is due to large permits issued in 2013. In most cases, however, the recent growth in a particular Community Designation was the result of a few large projects. For example:

- The largest retail project in the region, the Motowerks Mini Cooper dealership in Golden Valley had a permit value of \$51 million, accounting for 79% of the total permit value in Urban communities.
- Suburban communities’ total retail permit value quadrupled between 2012 and 2013, with most of this growth (66%) coming from permits related to the Twin Cities Premium Outlets in Eagan (\$42M) alone.
- The total retail permit value in Suburban Edge communities went from \$14 million in 2012 to \$37 million in 2013, bolstered by permits for a new Wal-Mart in Cottage Grove (\$13M) and Cabela’s in Woodbury (\$12M) issued in 2013. These two projects comprise 68% of all retail activity in the region’s Suburban Edge in 2013.
- Over half (53%) of the retail activity in Urban Center communities came from The Knollwood Crossings expansion in Hopkins, with a \$17 million dollar permit.

Figure 8. Motowerks Mini Cooper dealership in Golden Valley, MN



Figure 9. Total retail permit value by Thrive MSP 2040 Community Designations (in millions of 2013 dollars)



Source: Metropolitan Council Commercial, Industrial, Public and Institutional Building Permit Survey, 2010-2013. The region’s Rural Service Area consists of Rural Centers, Diversified Rural, Rural Residential and Agricultural communities. The permit values of non-Council communities are excluded in Figure 9.

About Metropolitan Council's Nonresidential Building Permit Data

Measuring the volume of commercial, industrial, and public and institutional construction activity over a given period of time is not straightforward. Some information sources that report new development focus on when construction started. Others, on how much development is underway at a point in time, and still others on when a structure is completed or occupied. In this report, projects are counted at the time local governments 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 are useful for assessing long-range trends.

Data collection methods

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

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

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 (without a residential component), religious entities, public recreation structures, transit and other transportation facilities, and other institutions such as non-profit organizations and community centers.

Data considerations

One project may consist of multiple building permits; one for the major structural construction, with separate permits for other work such as mechanical, electrical and finishing work. Metropolitan Council has attempted to represent the permit valuation for all new projects and additions (if over \$100,000) and to avoid duplication. However, there may be some inconsistency because of project complexity and differences among local permit record-keeping systems. Whenever possible to differentiate, the Research team only included building permits that involved the addition of new square footage.

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. For the most current data, download this dataset directly from our website: <http://metrocouncil.org/data>

Airport permits in public and institutional 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 communities with airports in the region's total permit values.