

MEMORANDUM

Date: July 8, 2026
TO: Saint Paul City Council
FROM: St. Paul Area Chamber
SUBJECT: Tech Infill - A New Tool for Downtown Saint Paul's Revitalization

Executive Summary

Downtown Saint Paul faces a fundamental challenge - too much vacant commercial space and too few tools to reimagine it. Commercial property values continue to decline as remote and hybrid work reshape office demand. Among other impacts, this shifts an increased tax burden on residential property owners and businesses while limiting resources available for public services and infrastructure. Saint Paul's commercial and industrial property has lost roughly \$1.5 billion in value since 2023, a decline that directly constrains the city's ability to fund public services, public safety, and infrastructure.

Tech Infill - the adaptive reuse of portions of existing downtown buildings for data centers, cloud computing, and AI infrastructure - is one of those tools. Tech Infill converts parts of underused buildings into high-investment, tax-generating assets without consuming new land. **Tech Infill must be evaluated separately from hyper-scale data center development.** Unlike such large projects, Tech Infill is integrated within existing buildings and constrained by specific physical and infrastructure requirements. A blanket moratorium will close the door to one of the emerging tools capable of revitalizing downtown commercial space while generating substantial capital investment.

Saint Paul cannot afford to create another barrier to investment. With the city facing a \$26 million budget gap and continued pressure on its commercial tax base, every opportunity to attract private investment matters. Public, private, and philanthropic partners have invested significant resources in downtown's revitalization, from the \$5 million in the Downtown Vitality Fund to the recently purchased First National Bank Building. As the City Council begins its discussion of data centers, we encourage a clear distinction between Tech Infill - a potential targeted redevelopment tool - and hyper-scale developments. This is an opportunity to establish clear principles and evaluation criteria, rather than defaulting to a broad moratorium. Saint Paul needs to send a clear



message that it is open to innovation, adaptive reuse, and investment that strengthens the city's long-term economic competitiveness.

The Problem: Declining Commercial Values, Rising Pressure on Taxpayers

Vacancy in downtown Saint Paul has remained concentrated near 37.1% – more than one in three square feet sitting idle – with older assets and limited tenant expansion continuing to weigh on occupancy.¹ A late-2025 analysis of 22 downtown office buildings found they combine for nearly 6 million square feet of office space, with roughly 2 million square feet of that vacant.² Existing buildings also contain significant underutilized space, including basements and storage areas, that can be repurposed.

When downtown commercial property values fall, the consequences compound:

- Downtown commercial property tax revenues decline.
- A larger share of the tax burden shifts onto residential and other property owners.
- Reinvestment in aging buildings becomes harder to finance.
- The city's capacity to fund core services tightens.
- Vacant buildings discourage the next round of private investment.

This is already happening across the city. Saint Paul's commercial and industrial property has lost \$1.2 billion in value since 2023³, contributing to the \$26 million budget shortfall the city faces in 2027⁴. The question is not whether downtown commercial values are under duress, it is what new tools and opportunities the city is willing to consider to stem the decline.

What Tech Infill Is - and Is Not

Tech Infill is the adaptive reuse of portions of existing downtown buildings for data centers, cloud computing, and AI infrastructure use – not the construction of new, hyper-scale data centers on undeveloped land.

	Hyper-Scale Data Center Development	Tech Infill
Land use	New construction, greenfield or large parcels	Partial reuse of existing buildings
Typical location	Suburban / rural	Downtown core

¹ Colliers, *Office Q1 2026: Minneapolis-St. Paul*, "Market Fundamentals" section, p. 4

² *Minneapolis/St. Paul Business Journal*, "Downtown St. Paul office building vacancy," Dec. 4, 2025

³ David Schultz, "St. Paul's shrinking commercial tax base: A fiscal warning sign," *myvillager.com*, April 7, 2026

⁴ KARE 11, "St. Paul mayor faces historic \$26M budget gap, vows to grow tax base," June 2026.



Vacancy impact	None	Directly absorbs vacant commercial space
Scale	Ranging from 400 to 1,000 megawatts	10 to 50 megawatts in an existing building
Community footprint	New land consumption, new infrastructure	Upgrades infrastructure already in place

The Capital Investment Case: The Sleep Number Building

The clearest evidence that Tech Infill works is sitting in downtown Minneapolis right now.

The Sleep Number headquarters building at 1001 3rd Avenue South – originally built in 1990 as an American Express computer center – housed a small, legacy data center for decades. Beginning in 2023, owner Legacy Investing expanded that data center’s capacity from about 2 megawatts to 21 megawatts (with plans to reach 40), investing more than \$70 million in improvements in 2025 alone.⁵

The result: the building, which had been assessed at \$30 million, sold in January 2026 for \$235 million – more than eight times its assessed value, and the highest price paid for a Minneapolis office building since 2019.⁶

The tax impact is just as concrete. A year before the sale, the building contributed roughly \$250,000 annually to city tax revenue. After the sale and upgrade, it is projected to pay \$1.8-2.2 million annually.⁷ This is tax revenue that otherwise would have to come from somewhere else on the tax rolls.

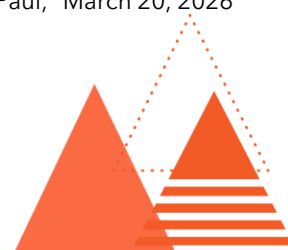
Notably, the data center occupies only a small portion of the building. Sleep Number’s offices remain in the space, while the data center itself employs a smaller technical staff. This is the “wedding-cake” model: a data center on the lower floors generates enough cash flow and lender confidence to make the rest of the building viable again, whether that’s through continued office use, retail, or future residential conversion.⁸

⁵ *Star Tribune*, “Downtown Minneapolis’ Sleep Number building, data center sold for \$235M, Feb. 19, 2026

⁶ *Ibid*

⁷ Minneapolis City Council Member Elizabeth Schaffer, opinion column, *Star Tribune*, “Data centers in downtown Minneapolis show promise, not peril,” May 20, 2026

⁸ *Axios Twin Cities*, “How data centers could help revive downtowns in Minneapolis, St. Paul,” March 20, 2026



The Revitalization Case: Downtown Saint Paul

Saint Paul's Downtown Investment Strategy targets growth from roughly 10,000 to 30,000 downtown residents. Housing conversion is the primary tool for getting there, but not all downtown commercial buildings are well-suited for residential reuse. Structural constraints, combined with a soft downtown office market, make these projects more complex and harder to finance. That distinction matters fiscally as well. According to a 2026 study commissioned by the St. Paul Port Authority, industrial and commercial land generates \$1.80 in tax revenue for every \$1 of city services consumed – compared to just \$0.87 for residential. On a per-acre basis, industrial land produces \$14,000 more in property tax revenue than residential land, making it 61% higher performing.⁹ Diversifying uses and funding sources will be necessary to transform what was once the Central Business District.

The Saint Paul Downtown Alliance retained the architecture and design firm Gensler in 2024 to evaluate the compatibility of 20 downtown commercial properties for office-to-residential conversions. Only 10 of these buildings identified as strong candidates for a successful conversion. 6 could be converted with some design compromise, while the remaining 4 were not ideal candidates for conversions.¹⁰ The findings reinforce an important reality: downtown revitalization requires a multi-prong redevelopment strategy.

The “wedding-cake” approach illustrates that opportunity. A data center occupying a building's basement or lower floors can generate the revenue and lender confidence needed to support housing, retail, or office uses above. Rather than competing with residential conversion, Tech Infill can make redevelopment financially feasible for buildings that might otherwise remain vacant or underutilized, helping to bring investment back to properties that have few other viable paths to reuse.

The Tax Base Case: Relieving Pressure from Property Taxpayers

The relevant question is not whether a building becomes a data center. It is whether the building remains economically productive and on the tax rolls.

The Sleep Number numbers make the stakes plain: a building that paid Minneapolis \$250,000 a year in property tax is now projected to pay \$1.8-2.2 million a year – an eight-fold increase in contribution to the tax base, generated entirely by private capital, with no public subsidy.

Contrast that with what happens to office buildings that do not find a new productive use. The U.S. Bank Center, a 25-story downtown St. Paul tower, was slated for auction with a starting bid of just \$1 million – far below the \$21 million it sold for in 2013¹¹ – before the St. Paul Downtown

⁹ St. Paul Port Authority / Northspan, Industrial Land Study, April 2026

¹⁰ Saint Paul Downtown Alliance, *Office to Residential Conversion Study*, November 2024

¹¹ *Star Tribune*, “U.S. Bank Center heads to auction for \$1 million starting bid,” Oct. 2025



Development Corporation bought its distressed mortgage¹². The First National Bank Building saw its assessed value fall more than 29% in a single year¹³. Across downtown's top seven office towers, average values dropped 16.5% this past year alone, including a 16% decline at Wells Fargo Plaza and 12% at Ecolab Tower¹⁴. Any revenue lost in downtown Saint Paul is absorbed by every other taxpayer in the city.

The trend shows up in the city's own books, not just individual building sales. Downtown's share of citywide tax revenue has slipped from roughly 12% before the pandemic to below 10% today, according to Saint Paul Downtown Alliance President Joe Spencer – well below the 20–25% share Spencer points to in healthier peer-city downtowns.¹⁵ Citywide, commercial and industrial property's share of Saint Paul's net tax capacity has fallen from nearly 30% in 2016 to roughly 23% in 2026¹⁶, even as the city's budget needs have grown – meaning residential property owners and businesses are now covering more of the difference than they were a decade ago.

Tech Infill supports Saint Paul's taxpayers by:

- Preserving and dramatically increasing taxable property value.
- Reducing pressure to shift tax burden onto residential property owners as commercial assessments fall elsewhere.
- Generating construction and permitting activity.
- Attracting private capital instead of requiring public subsidy.

Energy and Water Usage: Frequently Asked Questions

Will Tech Infill projects increase electric bills for other customers?

No. Under Minnesota law passed in 2025, large electricity users – including data centers using 100 megawatts or more – are placed in a separate "very large customer" class with their own Electric Service Agreement, which must cover the full cost of their service and any grid upgrades needed to serve them, and must avoid shifting costs onto other ratepayers.¹⁷ Electric utilities have already used this framework in agreements covering large Minnesota data center projects, and have stated directly that new large loads will not increase costs for existing customers.¹⁸

¹² Saint Paul Downtown Alliance press release, "Saint Paul Downtown Development Corporation acquires distressed mortgage on U.S. Bank Center building," Jan. 8, 2026

¹³ *KSTP*, "Downtown St. Paul office towers see double-digit value drops again," citing the Ramsey County Assessor's Office, March 2026

¹⁴ Ibid

¹⁵ Ibid

¹⁶ David Schultz, "St. Paul's shrinking commercial tax base: A fiscal warning sign," myvillager.com, April 7, 2026

¹⁷ *Minnesota Reformer*, "With new law in effect, data centers shouldn't mean higher electric bills for the rest of us," March 27, 2026

¹⁸ *Xcel Energy Newsroom*, "Xcel Energy to power new Google data center in Minnesota," Feb. 24, 2026



Potential Tech Infill projects in Downtown Saint Paul would be considerably smaller than the hyperscale projects, typically between 10 – 50 megawatts. As a result, connecting a Tech Infill data center to the grid is no different than connecting a new large mixed-use development or a new manufacturing facility. These projects are governed by standard utility processes and tariffs that require the "cost-causer" to pay for the utility infrastructure needed to serve the new electrical load, thereby protecting existing utility customers.

Who approves these agreements?

The Minnesota Public Utilities Commission (PUC). Electric Service Agreements between electric utilities and a large customer like a data center operator must be filed with and approved by the PUC before it takes effect, giving the public and regulators a formal review process for each project's cost allocation and grid impact.¹⁹

Smaller Tech Infill projects, which fall below the threshold requiring an Electric Service Agreement, are handled through an electric utilities' standard process.

Who regulates the energy impact of data centers?

Negotiations happen at the state regulatory level, between the data center operator and electric utilities, with PUC oversight, rather than being left to chance. That is a more rigorous review than most other types of commercial redevelopment receive.

For smaller Tech Infill projects, an electric utilities' standard process applies – the same process used for a downtown commercial building coming online.

What about water use for cooling?

Data center cooling technology has been shifting toward closed-loop systems, which recirculate the same water rather than continuously drawing and discharging fresh supply – reducing water demand compared to older designs.²⁰ Liquid cooling, in particular, is becoming the industry standard as the US data center market grows, since it cools equipment more efficiently than traditional air-based systems.²¹ With waste heat integration, these closed-loop cooling systems become even more valuable since liquids capture higher grade heat readily usable to feed into District Energy infrastructure.²²

¹⁹ Ibid

²⁰ Data Center Knowledge, "How Data Centers Are Transforming Waste Heat into Efficiency," Feb. 24, 2026

²¹ MarketsandMarkets, *Data Center Cooling Market Report 2025 - 2032*, 2025

²² Xiaolei Yuan et al., "Data center waste heat for district heating networks: A review," *Renewable and Sustainable Energy Reviews*, Vol. 219 (2025), Article 115863.



Could Tech Infill be integrated into downtown's existing district energy system?

Potentially, yes. Every kilowatt-hour of electricity a data center uses exits as heat, and that heat is increasingly being captured and redirected rather than wasted.²³ District Energy St. Paul already operates the largest hot-water district heating system in North America, serving more than 200 buildings through a closed-loop network²⁴ – and waste-heat capture from data centers is an active, growing application of that same model elsewhere.²⁵ A downtown data center is a potential heat source for the system that already warms much of the core, not simply a new demand on it.

Conclusion

Downtown Saint Paul's future depends on attracting new forms of investment and finding productive uses for underutilized buildings. Tech Infill needs to remain an available tool, rather than be foreclosed by language written for a fundamentally different kind of project. The conversation should be centered on conditions and guiding principles for data centers, not on sending the wrong message that Saint Paul is closed to investment through a one-size-fits-all moratorium.

The Sleep Number building is proof of concept just across the river. Saint Paul's own downtown, with its 37.1% vacancy rate and 2 million square feet of empty commercial space, has the same untapped inventory to work with. By enabling adaptive reuse and encouraging private-sector investment, Saint Paul can transform struggling properties into productive assets, strengthen its tax base, and position downtown for long-term success.

²³ Ever-Green Energy, "Data Center – District Energy Partnership: Achieving Efficiency and Community Benefit," ever-greenenergy.com

²⁴ District Energy St. Paul, "How it Works," districtenergy.com; corroborated by *Star Tribune*, "Under your feet: The massive, centralized systems that keep the Twin Cities comfy," 2026 update.

²⁵ District Energy Association (IDEA), "Data Center Waste Heat Recovery," districtenergy.org, March 11, 2026

