BUSINESS

How Twin Cities growth lured in California's Calvera Partners

The private real estate investment firm launched its national expansion in the Twin Cities.

By **Jim Buchta** Star Tribune | JUNE 3, 2017 — 12:44PM

Among apartment investors, it's no secret that the Twin Cities is one of the healthiest markets in the nation. Rents are on the rise, vacancy rates are below average and the economy is humming. Those attractions lured Calvera Partners, a California-based private real estate investment firm, to launch its national expansion in the Twin Cities. Last week, it paid $11.4 million for Grant Street Commons, an 85-unit, eight-story apartment building at 515 E. Grant St. in the East Town neighborhood near Elliot Park and U.S. Bank Stadium. The company will also open a local office and keep shopping for other buildings. Brian Milovich, managing principal at Calvera Partners and a graduate of the Carlson School of Management, talked about the company's move into the market:

Q: Did you launch your national expansion in Minneapolis because this building presented an opportunity, or were you specifically seeking opportunities in the Twin Cities?

A: We've wanted to buy in the Twin Cities for some time. The urbanization of the North Loop, Lyn-Lake, and now East Town neighborhoods show us that there's a strong desire to live in a more urban setting. While we have targeted properties in other markets and will continue to do so, the Twin Cities is a natural fit for our national expansion. We know the market extremely well and plan to acquire more locally.

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JENNY PFEIFFER, CALVERA PARTNERS

Calvera Partners managing principals, from left, are Brian Milovich, David Saxe and Brian Chuck.

Q: Some of the most coveted buildings are attracting dozens of offers, how long did it take you to land this deal?

A: We've been looking in the Twin Cities for an acquisition for the past three-plus years. We've put in numerous offers in Uptown, downtown, the suburbs and even Lowertown in St. Paul. I will say, though, this property is exactly what we want to buy. It's a critical mass of units. The property really hasn't been touched since the 1980s, which allows us to put our own stamp on it, and the neighborhood hasn't completely arrived yet, but we can see the development coming right at us. This is the type of deal we've purchased in Silicon Valley and we're anxious to work on this project in Minneapolis.

Q: Did you shop other markets?

A: Absolutely. My partners and I all have experience acquiring real estate in other markets across the country. We've been involved in transactions such as a creative office in Austin, Texas, a casino-hotel development in Las Vegas, condo towers in Hollywood, rent-controlled apartment portfolios in San Francisco and major office acquisitions in Oakland.

Other markets have always been on our radar, but the Bay Area has seen such explosive growth over the past five to seven years coupled with cap rates declining in markets like Minneapolis, that we haven't seen the need to look elsewhere.

Now that we're seeing values in the Bay Area taking a pause, we feel there's room to grow in other markets where urban living is still gaining acceptance.

Q: There's growing concern that too many luxury units are in the pipeline. Are you feeling queasy about the supply situation?

A: Yes, we keep an eye on new supply and downtown has particularly seen an influx of new high-end units. It seems as if each new building tries to "out-luxury" the one built right before it with over-the-top amenities and unit finishes not even found in condo developments. Even though we don't compete directly with the high-end of the market, any new supply will impact rents and values. In a neighborhood like Elliot Park [or East Town], we see the new development as an attractive attribute. For example, Grant Park condos were built in 2004 and they were the pioneer in the neighborhood. It has taken 13-plus years to finally see development work its way down Portland with more condos, the HCMC expansion and Kraus-Anderson's headquarters project.

Q: You've said that you'll rebrand this building. Have you picked a theme?

A: We're doing our homework on Elliot Park and the surrounding area and we've enlisted local creative talent to create a brand that feels authentic and speaks to the community. In Silicon Valley we re-branded a 1960s-era property as pksl (pronounced "pixel") as a take on the original Atari video game console and its pixilated characters. In downtown San Jose, two blocks from San Jose State University, we thought the physical shape of the buildings resembled library stacks and the three-digit numbering of the properties reminded us of the Dewey decimal system. Though college students today likely don't know what a library is, the Stacks was a unique play on that location.

Q: Such repositionings have attracted some negative attention because longtime residents have been priced out of the building. How much will you raise rents?

A: That is to be determined, though we have no vision of trying to compete on price with the new construction in the area. Our property will be a place that's modern and creative with an emphasis placed on fun and fostering a sense of community.

Q: Any specific acquisition goals for the Twin Cities?

A: Our investment vehicles are flexible in that we don't need to set specific targets for a certain market. If we find an attractive deal that fits our unique value-add strategy, then we want to buy it. The Twin Cities last saw a major apartment boom in the 1980s and those properties have largely gone untouched. I'd love to find more properties to transform and breathe new life into those structures.