**Notes from Minneapolis Downtown Council’s 2025 Plan**

**East Town Development Group Meeting**

**Tuesday, February 21, 2017, 9:00-10:30 a.m.**

**The Encore Minneapolis**

**212 10th Avenue South, 2nd Floor Community Room**

**DOWNLOAD PRESENTATION AT THIS LINK:**

[**https://www.dropbox.com/s/wa2uhlw4tbjdtj2/East%20Town%20Development-2-21-17%20Market%20Rate%20Housing%20Analysis-FULL%20PRESENTATION.pdf?dl=0**](https://www.dropbox.com/s/wa2uhlw4tbjdtj2/East%20Town%20Development-2-21-17%20Market%20Rate%20Housing%20Analysis-FULL%20PRESENTATION.pdf?dl=0)

1. **Welcome and Overview of Agenda**Dan Collison, MDC Director of East Town Partnership, welcomed the audience to the February East Town Development Group meeting and announced that another State of the (Real) Estate presentation by Cynthia Froid would be given for area homeowners on Wednesday, March 1st, 6:00-7:00 p.m., at the Mill City Museum, 710 South 2nd Street, 6th Floor ADM Conference Room (<http://millcitytimes.com/mill-city-minneapolis-events/march-1-2017-wednesday-2017-state-of-the-real-estate-at-mill.html>).

Then he reviewed the agenda which also included a presentation on the rental housing market by Elin Michel-Midelfort, and an optional tour of The Encore Minneapolis.
2. **Upcoming East Town Development Group Meetings**
* *Tuesday, March 21st*. Park and Portland: A Vision for Development by the BKV Architecture Team. This presentation will be hosted by the U.S. Plumbers Local Union 15 (<http://www.plumberslocal15.com>), 708 South 10th Street near one of the arterial streets under study.
* *Tuesday, April 18th*. The New Hotels of East Town hosted by the Radisson RED located at 609 South 3rd Street (<https://www.radissonred.com/minneapolis/>).
* *Tuesday, May 16th*. The Mill City Quarter Affordable Apartments (<http://www.millcityquarter.com/>) and Abiitan Senior Apartments (<http://www.abiitan.org/>).
* *Tuesday, June 20th*. An Affordable Housing Leadership Panel.
1. **Introductions**Tim Briggs, PadillaCRT
Lynn Burn, Cynthia Froid Group
David Fields, consultant to Minneapolis CPED for East Town
Chris Fleck, North Central University
Cynthia Froid, Cynthia Froid Group
Tom Hayes, Hennepin County Medical Center
Ted Jirele, Cynthia Froid Group
Varun Kharbanda, 511 Building
Michael Krantz, Metro Transit Office of Transit Oriented Development
Shane LeFave, Sherman Associates
Nancy Martel, Kraus-Anderson Construction
Pamela McCrea, Downtown Minneapolis Neighborhood Association
Elin Michel-Midelfort, The Excelsior Group
Robin Mooney, Boarman Kroos Vogel (BKV) Group
Ken Searl, Friends of the Mill District, Gold Medal Park Conservancy
Carletta Sweet, Downtown Minneapolis Neighborhood Association
Dale White, TFS Corporation
2. **East Town Housing Narrative and Commitment**
Collison explained this work group was formed by the Minneapolis Downtown Council-Downtown Improvement District and the East Town Business Partnership and includes more than 60 organizations and 100 leaders representing businesses, nonprofits, elected officials, universities, and neighborhoods. This inter-disciplinary group advances the development goals of *Intersections: The Downtown 2025 Plan* (<https://mplsdowntown.com/2025plan/>) and hosts monthly strategic presentations ranging from planning and design to projects with a special focus on diverse housing growth. For more information about this group, visit the East Town Development website (<http://www.easttowndevelopment.com/>).

When the MDC says to double the downtown population, it is due to the belief when residential growth happens it will drive retail, reinvestment and safety. This group processes all development perspectives, but diverse housing is important as well, e.g.:
* At the November 17, 2015 meeting, Metropolitan Council Chair Adam Duininck explained the MC’s vision for a regional transit system for the 21st century that connects people to more jobs and how the MC plays a non-statutory advocacy role in providing housing opportunities in the region; and Neeraj Mehta, Director of Community-Based Research at CURA, Jeff Matson, Coordinator of Community Geographic Information Systems (CGIS) at CURA, and Tony Damiano, Doctoral Research Assistant at CURA, gave a presentation on their housing analysis in Downtown East and Elliot Park. CURA’s takeaways were:
* These neighborhoods in many ways mirror the city of Minneapolis, both in terms of demographics, and disparities. This is a great time to stitch this all together and there’s an interesting mosaic underway that is bringing everyone together with a whole new middle of the district
* There is a large low-income renter population susceptible to rising rents and displacement during redevelopment.
* There is a lot of affordable housing, but now as a lot more market rate comes on line we need to continue to advocate for affordable.
* At the February 16, 2016 meeting, City of Lakes Community Land Trust Executive Director Jeff Washburne described how the community land trust model works in higher density homeownership townhomes and condominiums. It ties the affordability investment to the title of the land and conveys the use of the land back to the homeowner through a lease. The homeowner agrees to sell to another income-qualified household and agrees to resale restrictions thereby retaining affordability for the next household.

Collison noted that both the DMNA and EPNI boards are concerned about growth in homeownership in East Town.
* The numerous recently completed/under construction/planned developments that are increasing the diversity of housing inventory in East Town:
* 6-story, 195-unit, 3-building Edition Apartments (<http://www.editionapts.com/>) on Wells Fargo 5-block campus;
* 17-story, 306-unit HQ apartment building on the Kraus-Anderson block ([http://www.krausanderson.com/
portfolio/kraus-anderson-block/](http://www.krausanderson.com/portfolio/kraus-anderson-block/));
* 17-story, 112-unit Portland Tower Minneapolis condominiums (<http://portlandtowerminneapolis.com/>)
* 11-story, 123-unit Encore Minneapolis luxury apartments (<http://mplsencore.com/>)
* 14- and 17-story, 374-unit The Legacy Minneapolis condominiums (<http://thelegacyminneapolis.com/>);
* 6-story, 180-unit mixed-use East End luxury apartments (<http://www.eastendmpls.com/>);
* 6-story, 245-unit mixed-use 1400 Park Avenue Apartments ([http://www.ci.minneapolis.mn.us/www/
groups/public/@cped/documents/webcontent/wcmsp-185554.pdf](http://www.ci.minneapolis.mn.us/www/groups/public/%40cped/documents/webcontent/wcmsp-185554.pdf));
* 15-story, 166-unit mixed-use apartment building in the Ironclad Minneapolis complex (<http://ironcladmn.com/>);
* 6-story, 159-unit East Town Apartments (<http://www.mplsbuild.com/projects/east-town-apartments/>) tailored to individuals and families who work in downtown;
* 6-story, 115-unit, mixed-use and mixed-income project at 205 Park Avenue South ([http://www.ci.minneapolis.mn.us/www/groups/public/@clerk/documents/webcontent/wcmsp-192899.pdf](http://www.ci.minneapolis.mn.us/www/groups/public/%40clerk/documents/webcontent/wcmsp-192899.pdf))
* 5-story, 50 micro-unit market rate Aberdeen Apartments ([http://minneapolismn.gov/www/groups/public/@cped/documents/webcontent/wcmsp-191905.pdf](http://minneapolismn.gov/www/groups/public/%40cped/documents/webcontent/wcmsp-191905.pdf)); and
* 5-story, 55-unit House of Charity supportive housing expansion (<http://www.mplsbuild.com/projects/house-of-charity/>).

Collison then introduced the guest presenters and thanked them for providing the statistical background needed to understand the downtown Minneapolis real estate market and looking ahead toward 2025.

1. **2017 State of (Real) Estate: A Look at Downtown Minneapolis Housing Trends**
2. **For Sale Perspective**Cynthia Froid, owner and founder of Cynthia Froid Group (<https://www.linkedin.com/in/cynthia-cindy-froid-a5b3b67>), advised she started in this business 21 years ago leaving her $23,000 a year teaching job to come and sell condos in what her mother referred to as “skid row”. Between the Whitney Hotel, Liquor Depot, and Metrodome landmarks was nothing but surface parking lots, drunken Vikings tailgaters, and a lot of public urination. Obviously, this area has changed tremendously since then (including the growth that is occurring in the North Loop and directly across the river) and she can only imagine what the next 15-20 years will look like. The for sale housing market in downtown is alive and well and the common theme is build more condos. Realtors have so many buyers that they don’t know what to do with but thankfully for those who can’t find something to buy can go knocking on Michel-Midelfort’s door.

As they look back over the past couple decades, it is a really unique time in the market because generally when rental housing is doing well, for sale housing is not doing well, and it flip flops. However, today is the unique phenomena of both the for sale and rental markets are equally strong.

When the housing market crashed (<https://en.wikipedia.org/wiki/United_States_housing_bubble>) there were a lot of accidental landlords, i.e., people who could not sell their units but who had to continue to pay the bills and for those who had to relocate were forced to rent their units. Today is the opposite, i.e., accidental renters, those who want to live downtown but can’t find anything to buy so they have to rent. This is what is driving up the rental and for sale markets.

Froid then explained that all of the data she will show in her slide presentation is available from NorthstarMLS (<https://www.northstarmls.com/>) and is only as good as she interprets it, as good as what is submitted to MLS, and is a snapshot in time. Froid’s company is available to give presentations tailored to a specific neighborhood and audience.

When Froid speaks about downtown, she focuses on the following seven core/central neighborhoods where there is the most turnover in condos and townhomes:
* Downtown East (aka Mill District)
* Downtown Central (West)
* Elliot Park
* Loring Park
* North Loop
* Marcy Holmes (west of 35W)
* Nicollet Island/East Bank

And to define the type of market housing is experiencing, realtors use the months supply of inventory (MSI), that is, how many months it would take for all the current homes for sale on the market to sell, given a monthly sales volume, e.g.:

* Seller’s market = less than 5 MSI (sales prices closer to asking prices)
* Buyer’s market = more than 6 MSI (buyer has more power in negotiation of price)
* Balanced market = 5-6 MSI (neither side has a market-wide advantage)

Today is an incredibly strong seller’s market; she’s seen more multiple offers on properties before they event hit MLS than in the past 5-7 years combined. They are selling 50% of their properties before they hit MLS, before they do any staging.

Froid then displayed charts depicting:

* MIS for the Twin Cities Region versus Downtown from 2005 to 2017 (no data was available prior to 2005 because many of the Brighton Development properties just posted signs on the construction site not on MLS) shows downtown lagging behind compared to the rest of the marketplace;
* MIS for the Twin Cities Region versus Downtown from 2015 to 2017 shows Downtown dropping from 2.6 to 1.8, the lowest Froid has ever seen;
* Average days on the market for the Twin Cities Region versus Downtown from 2005 to 2017 shows a high of over 175 days during the crash to less than 50 days today;
* Median days on the market for the Twin Cities Region versus Downtown from 2015 to 2017 shows Downtown dropping from 46 to 26 days;
* Median days on the market by price bracket from 2005 to 2017 shows $499,999 or less in blue has been fairly consistent with people moving in/out (a good sign of hiring), $500,000-$999,999 in red, and $999,000 or more in green took awhile to feel the pain after the market crash and had a massive spike in 2012;
* MIS by price bracket from 2005 to 2017 shows today no matter what price range, inventory in moving off the shelves;
* MIS by price bracket from 2015 to 2017;
* Average sold price per square foot for $499,999 or less from 2005 to 2017 shows a rise from just over $220 then to just over $260 today for older units in Elliot Park and North Loop;
* Average sold price per square foot for $500,000-$999,999 from 2005 to 2017 shows a rise from $280 then to just over $370 today;
* Average sold price per square foot for $999,000 or more from 2005 to 2017 shows a rise from $300 then to $600 today and units would be found in The Carlyle, Washburn Lofts, Stone Arch Lofts, The Phoenix;
* Average sold price per square foot by neighborhood from 2005 to 2017 shows Downtown East and Nicollet Island/East Bank commanding the highest price and Downtown Central the lowest because it has a lot of older buildings and there is less turnover;
* Sales of luxury homes downtown (over $1 million) from 2012-2017 to show what is being traded because if the people with money who can afford the taxes are not investing downtown, the rest of the market will feel it;
* Number of units sold by neighborhood from 2005-2017 shows a spike in 2015 in Downtown East due to purchases made at Stonebridge Lofts; and
* Number of homes sold by price bracket from 2015-2017. This graph informs investors what type of units to buy and developers what type of units to build.

Froid then mentioned some current projects going on downtown that will have an impact on the for sale market:

* Jim Stanton’s 112-unit Portland Tower, and 374-unit Legacy Minneapolis. The latter is great but doesn’t do anything for buyers who need something today; and
* Alatus’ proposed 42-story, 200-unit, mixed-use residential project at 200 Central Avenue SE on the Washburn-McReavy site that is stalling and the related neighborhood controversy (<https://stopalatus.blogspot.com/>).

Another factor impacting the for sale market in downtown is for the first time millennials and baby boomers are clamoring for the same properties for the same reasons, contrary to what’s happening in other markets. They want to be where the action is, walk to whatever in their neighborhoods, and close to the river; that is putting a squeeze on inventory in downtown. How long will this bubble last? They don’t know, but as long as there remains little inventory from which to choose, prices will continue to go up.

Froid then entertained questions from the audience during which Nancy Martel indicated developers’ willingness to build for sale, but rules need to change at the legislature to reduce the risk of litigation. She visited New York City where the rules are different and there are contracts that protect developers, builders and architects. She also noted that there are legal ramifications to converting apartments to condominiums.

Froid noted the moral of her story is there is insufficient for sale inventory and why there is madness in downtown and frustration for buyers. For more information, visit [www.cynthiafroidgroup.com](http://www.cynthiafroidgroup.com) or contact her directly at cfroid@kw.com.

1. **Rental Perspective**
Elin Michel-Midelfort, Director of Multifamily Development at The Excelsior Group (<http://excelsiorllc.com/our-people/elin-michel-midelfort/>), advised she grew up in South Minneapolis and has lived downtown for nearly the past decade. She formerly managed condos for Gittleman Management/FirstService Residential and now has been with The Excelsior Group for the past 4 years. Her downtown projects include the 222 Hennepin Apartments/Whole Foods project and most recently the Edition Apartments at The Commons (<http://www.commonsmpls.com/>).

Michel-Midelfort acknowledged the data and unique conditions Froid provided that are driving the housing market and noted that the wider Minneapolis market does not understand (1) 95% of the cranes going up are for apartment construction, and (2) state statutes impeding building for sale housing resulting in limited options to buy.

Before the housing market crash, prospective buyers found it difficult to save enough to invest in a home with few options downtown from which to choose and thus they became renters by necessity. Today, the stigma to rent is very different due to the varying product types being offered to attract a diverse age group ranging from millennials to empty nesters. To try and combat increasing competition, market rate rentals now offer:
* Hospitality level services (222 Hennepin was the first in market to have 24-hour concierge) managed by teams (e.g., manager, assistant manager, leasing team responsible for building revenue, janitorial staff) some of which are usually available until 2:00 a.m.;
* Diverse locations and construction styles;
* Larger and more unique layouts and finishes within and on the building; and
* Larger and better community-based, lifestyle-focused amenities.

Visit Explore Downtown Living, <http://exploredtliving.com/>, begun 2 years ago by her boss Jennifer Gordon (<http://excelsiorllc.com/our-people/jennifer-gordon/>) and Brent Webb to view the list of rental properties and amenities offered in downtown.

Standard among most professional rental management companies require a prospective renter’s income be three times the rent; TEG has found most people are spending 23% of their income on rent. Although there is the idea that everyone is at the maximum, based on review of their own renters, even though they may qualify to pay much more, they are being conscientious because many of them have multiple homes and this is their urban cabin.

Since they are now playing to a homeowner demographic, they now use realtors and pay referral fees to other brokers who have access to the 3-bedroom demographic who can pay $6,000 a month but cannot find what they want or don’t want to compete in this market. Because of its low unemployment rate and the number of Fortune 100 companies located in the area, Minneapolis is a very hot market and in order to differentiate itself, TEG also visits other markets annually to keep up with the trends, the most recent being in New York assessing hotel operations.

Prior to 2013, the types of products offered and materials used in downtown Minneapolis were not of today’s quality and rents were at a ceiling on average of $2.00 psf. Currently, the majority of downtown properties are a minimum of $2.30 psf and reaching upwards to $2.80+ psf which affords them the ability to use condo-grade materials. The average for the downtown core is between $2.40 and $2.80 psf; North Loop averages $2.35-$2.40. What you are seeing now are in lease-ups (i.e., the time period for a newly available property to attract tenants and reach stabilized occupancy) because so much supply came online at one time and they are all really close to each other. In the North Loop they are not offering concessions and are staying stagnant in rent increases as they were a couple years ago.

Responding to an inquiry about parking accommodations, she explained typically 10-15% of their renters have no car; and typically apartment buildings are built with one stall per bedroom but often now one stall per unit or less. There is no incentive to overbuild except for what has happened at Latitude 45, i.e., not enough parking within building for every unit and thus leasing has remained stagnant at 80%. It’s been difficult to get people to convert and park in an open ramp (i.e., The Gateway) that is not climate controlled or secure.

Prior to 2013, building new costs were averaging $185,000. Currently, costs average $275,000 per door for stick construction and $300,000+ per door for concrete construction without land and close to $400,000 per door including land. Depending on location, land is typically $10,000-$30,000 per door. In addition to materials costs, construction costs are heavily impacted by labor costs and it is hard to get competitive bids.

Around the 2010s, the capitalization rate (<http://www.investopedia.com/terms/c/capitalizationrate.asp>) for Class A multifamily property in downtown was 6%, and now it is about 4.5%. Values are at an all time high due to serious cap rate concessions across all asset types within multifamily. Class B has gone from 7% to 5.5%, and Class C has gone from 8-9% to 6-7%. Bottom line is real estate has been purchased as if the value is added; sales based on the assumption that the value will be added.

Looking ahead, she does not believe capitalization rates will compress any further which is why they are receiving calls from institutional owners from across the country who want to buy in Minneapolis. In terms of demand, we’re like a coastal city and values are going crazy, e.g., they sold 222 Hennepin Apartments to Weidner in 2015 for $320,000 per unit without the retail, and $380,000 per unit with the 40,000 sf Whole Foods, or $109 million. There is a lot of pressure to get more condos on the market and it can’t sustain itself without changes at the legislature. After renting and seeing the quality of materials found in concrete, the empty nesters will flock more to that type of building construction which is a more condo-like feel, and millennials are getting married and buying houses, but people are feeling more comfortable given the product type and are willing to stay until their kids are school age. The demographic of people willing to rent is a much wider age range and they are doing so by choice.

1. **Closing Remarks**

Collison thanked Froid and Michel-Midelfort for their presentations, and noted there is still tremendous opportunity to work through some of these pipeline issues, keep the conversations going, and recognize the market doesn’t get any better than this. In his new role as Executive Director for the 2020 Partners (<https://the2020partners.com/>), they are beginning to explore the edges of where the North Loop is hot and where it’s not and with new transitways being built this conversation about different kinds of products will be interesting.

Then he thanked the audience for attending, and reminded them of the March 21st ETDG meeting at the Plumbers Union Local 15. Thereafter, a tour of the property was conducted.