

Published: August 12, 2003
Edition: METRO
Section: BUSINESS
Page#: 1D

From rent to own Condo developer targets overlooked market

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In a well-tailored navy suit and crisp white shirt, Chip Johnson makes real estate development look like a breeze.

But the night before the recent grand opening of the Twin Cities' newest condo conversion project, Calhoun Place in Minneapolis, Johnson was up until 3:45 a.m. hanging pictures, and up again at 8 a.m. helping vacuum the hallways.

He's not complaining.

Johnson, who recently left his job managing a large real estate portfolio in Japan to start a real estate investment company in his hometown, sees this project as an opportunity to satisfy an underserved part of the real estate market: people who can't afford or don't want the responsibility of a single-family house.

One-bedroom units start at \$140,000, including underground parking, and two-bedroom units top out at about \$240,000 - well below the cost of single-family houses in the neighborhood, where two-bedroom houses sell easily and quickly for more than \$350,000.

The nine-story apartment building was built in the late 1980s and is surrounded by other apartment buildings and condominiums, including some that were converted a couple of decades ago when interest rates were so high a condo was all some people could afford.

Johnson, 34, closed on the building in early May and started notifying tenants of the conversion and renovating common areas.

Just two years ago he was living in Japan, where he worked on multimillion-dollar deals for Colony Capital, an international real estate investment firm where he was responsible for investment and portfolio activities.

Johnson grew up in the Twin Cities, went away to college and graduate school and cut his teeth in Los Angeles and New York.

With Colony, he had access to nearly \$1 billion in funding, but life in Tokyo and a rigorous travel schedule made things difficult; he and his wife yearned to raise their two children in Chip's hometown, Minneapolis.

During a visit to Minneapolis two years ago, he discussed his interest in coming home and starting his own real estate company with longtime family friend and businessman Mike Dougherty.

``He looked at me and said, `The longer you wait, the harder it gets,' " Johnson said. Johnson and his wife decided not to wait.

Dougherty provided some downtown office space and access to institutional investors, and Johnson launched Turnstone Group LLC, which will focus on buying and selling underutilized and underperforming residential and commercial properties in the Twin Cities.

This first project came along almost by chance.

During a meet-and-greet visit to Los Angeles a year ago he met with some Japanese investors who owned an apartment building in Minneapolis. But Johnson wasn't interested in long-term asset management, so he didn't make an offer.

He had decided to focus on properties in the \$2 million to \$10 million range that would be too expensive for small investors and too small for large institutional investors.

While making deals in Japan and elsewhere, he learned to anticipate trends and look for deals that were off the radar screen of other investors.

After the meeting in Los Angeles, Johnson came back to the Twin Cities and drove by the building, which has skyline and Lake Calhoun views from a rooftop deck and many of the apartments; he knew right away that the building was a candidate for conversion - especially in a neighborhood where condominiums were selling well.

And the project could be done relatively fast. With mortgage interest rates rising, timing was of the essence. The market is always changing and you have to have a quick exit strategy.

"You have something to show people immediately," he said. "If we were just getting into a project right now, I'd be nervous."

He went back to Los Angeles and, because of his experience with the customs and subtleties of Asian executives, was able to make a deal quickly.

The bull's-eye

Because he had learned the importance of knowing his limits, he started assembling a team of experts.

He hired Bob Kueppers, who helped execute many of the condo conversions in the 1980s, and Barbara Brin, a Realtor who specializes in condo sales.

By all accounts he hit the bull's-eye. During the first moments of the grand opening, the lobby was full and a long line of prospective buyers raced through the halls.

By the end of the weekend nearly half of the 109 units had been reserved, many of them by existing residents and young professionals who can't afford to buy a single-family house in this high-priced neighborhood.

Calhoun Place is Johnson's first acquisition and there's still lots of work to be done. But he's already on the lookout for the next project.

"Today, I like conversions," he said. "But there comes a point when trends will change and conversions might be the last place you'd want to be."

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