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Downtown condo rush
Young professionals and baby boomers are buying up urban living spaces at an unprecedented rate.

By Jim Buchta

Staff Writer

Minneapolis is about to lose another several hundred apartments to the downtown condo craze.

This week developer Chip Johnson of the Turnstone Group confirmed the sale of RiverWest, a 416-unit high-rise apartment building overlooking St. Anthony Falls. There is speculation within the real estate community that the Pinnacle and Falls, a pair of high-rise apartment buildings with 257 units just across the river, might be next to convert. Those buildings, one of which was built as condominiums in 1984, are listed for sale with a Chicago-based real estate company and are said to be under contract.

Renters, who have already been notified of the sale, will get first option on their units and while all common areas will be renovated, units can be sold as-is. Prices will be well below \$250,000 - a relative bargain in a market where it's difficult to find anything under \$300,000 along the riverfront. In fact, some people who caught wind of the impending sale before the deal closed rented RiverWest apartments just to get first crack at one of the units.

Such situations are repeating themselves over and over again, leading some to question how many more sizable condo projects the market can stand. Real estate agents say, yes, there's some evidence that the market is beginning to feel all the new units becoming available.

According to data from the Regional Multiple Listing Service, inventory in downtown Minneapolis has grown significantly this year, and more units are standing empty, waiting for buyers. So far this year, 312 condos have sold, but 367 haven't. In the same period last year, 249 units sold and 211 hadn't.

Those numbers don't include several new projects and several thousand units that are still nothing more than proposals. In an effort to avoid the condo bust of the early 1980s most lenders now require builders to sell 50 percent of their planned units before construction can begin.

Tom Melchior, manager of market research for Larson, Allen, Weishar & Co. in Minneapolis, said the demographics suggest strong demand for at least a dozen years thanks to young professionals and baby boomers who want maintenance-free condos and townhouses. He estimated that the market can absorb an average of 300 to 400 units every year.

But 685 new units - not including conversions - are expected to come to market this year and another 560 are slated to open in 2005. Melchior said that means the days of double-digit appreciation and one-day market times is probably history, at least for a while.

"I don't think that given the product that's underway right now that there's a glut, but the potential is there given the proposals floating around," Melchior said.

The growth of the condo market in Minneapolis is unprecedented and even surpasses the pace of many of the fastest-growing suburbs. In Shakopee, for example, which has consistently been among the five fastest-growing Minnesota cities, builders planned to build 580 units so far this year.

Citywide, an estimated 4,000 to 5,000 units have been proposed for construction over the next several years.

Fritz Kroll, sales agent with Edina Realty in Minneapolis, thinks the new inventory is finally bringing the downtown market into balance between buyers and sellers.

“Downtown is becoming its own animal,” he said. “There are so many more people that want to live downtown. I think it’s unique in that the more developed it becomes, the more desirable it becomes. Every year it seems to be twice as busy as the year before.”

Kroll said he has presold nearly all the units in two Minneapolis projects under construction, Shafer Richardson’s Bassett Creek Lofts and 710 Lofts. He’s already reserved more than 50 percent of the units in the 720 Lofts, a 99-unit building that will break ground this month.

During the past several years, demand for downtown housing, particularly along the riverfront, outstripped supply and prices soared double digits. Stories about people stampeding sales staff and pitching tents overnight to be first in line to make reservations are still flying around downtown marketing offices.

Investors have joined homeowners in jumping on the condo bandwagon. Some estimate that 10 to 25 percent of the sales in successful new projects like Grant Park and the Carlyle are being bought by speculators who intend to quickly sell their units at a healthy profit.

But that can be tricky business during a times of rapidly increasing inventory.

“I don’t think sellers realize the market has changed and it’s taking longer for homes to sell and buyers are coming in tough on their offers. It’s a big change from a year ago,” said Michael Sharp of Re/Max Results in Minneapolis. “They’re fishing the market to see what the seller will do. They have a lot to pick from.”

Agents say luxury units are among the most difficult to sell, with some having been on the market for more than a year.

Melchior said the 18-story RiverWest building won’t be demanding top-dollar prices, despite its clear views of both the river and the downtown skyline. He said the key to success for the project will be keeping prices close to \$200 a square foot, which means most units will sell for well below \$250,000.

Johnson, who recently did a similar conversion at the Calhoun Place apartments near Lake Calhoun, is planning to spend about \$2 million to update the common areas in the building and expand its fitness center, pool area and terrace.

And Johnson’s not wasting time getting started.

He closed the deal late on a Thursday night, and by Monday afternoon renters had notices in their mailboxes.

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