

## If You Lived Here, You'd be Broke by Now

How a cadre of developers has turned \$800-a-month local apartments into \$200,000 condos—and turned out a few thousand residents in the process.

by G.R. Anderson Jr., City Pages – 2/22/06

Claude Jones takes a while to answer a visitor's call from the lobby of his apartment building, even though he only lives on the second floor. During the wait, a visitor might notice the obvious benefits of living at the Greenhouse, an apartment complex perched on a corner where Hennepin Avenue runs into Lakewood Cemetery. Aside from being located in one of the more picturesque parts of the local urban landscape, just a stone's throw from Lake Calhoun, the Greenhouse's environs offer the kind of amenities that come with living on the outer fringe of Uptown: access to retail, a relatively low crime rate, and bus lines that literally stop outside one's door.

By the time Jones makes it downstairs to greet me, it's clear why such perks are essential in his life. A slight man of 65 years, he's stooped and walks with a shuffling, slow-motion gait. Since 1982, Jones has lived with the effects of a near-fatal car accident near his native Detroit, which include disabilities stemming from multiple back, hip, and leg fractures, along with chronic gastrointestinal troubles. Even so, Jones is game to lead a brief tour of the hallways of the Greenhouse en route to his neatly furnished, 550-square-foot one-bedroom apartment.

Just inside the front hall of the building, the place fairly gleams: new hardwood floors, new paint, new wooden doors with brass numbers. It's the result of a more than yearlong renovation undertaken by the new owner of the building, Financial Freedom Realty, which is in the process of converting its 72 rental units into condominiums. Soon enough, though, the hallway turns drab, revealing dingy white walls, wrought-iron staircase railings, and old, light-blue carpeting.

Jones, for one, is not entirely pleased with the makeover. Since he moved into the Greenhouse two years ago, his life had appeared to be settled after years of moving from one low-income housing unit to another. The apartment where he lives, Jones explains, only costs \$688 a month, leaving him enough to live comfortably on a fixed monthly income of roughly \$2,000. After the conversion, Jones says, his apartment is expected to sell for as much as \$190,000, a price he can't afford. But Jones, along with a handful of other holdouts, is staying for now. There's presently a dispute as to whether the new owner properly notified the rental tenants of the looming conversion, and Jones is waiting to see how it shakes out.

"I'm going to try to stay as long as I can," he says, with some resignation, now seated in his living room. "I've made ties in this neighborhood, and this has been creating a lot of chaos and disorder by displacing a lot of people. Me, I'm just in limbo."

Jones isn't the only one. Over the past two years, more than 2,000 rental tenants of all sorts have been booted out of their apartments, the latest victims in a Minneapolis condo-conversion wave that has displaced young and old, poor and middle-class, healthy and disabled alike. The end result is that while downtown Minneapolis is seeing an unprecedented residential development boom—most of it in high-end properties—neighborhoods in other parts of the city are seeing radical transformations that by many accounts are unwelcome.

Condo "conversions" are different from most residential-property development waves. Except in those instances where the property being converted was originally nonresidential (think downtown warehouses), the conversions add no new housing stock to the market; they just turn rental units into privately owned homes. By most accounts, the local conversion trend of the past few years has stemmed from changes in the rental market during the larger real estate boom of recent years. In the late 1990s, rental vacancy rates in the metro dropped below 2 percent. The scarcity of rental units led landlords to jack up rents. That factor, along with the spike in the number of first-time home buyers, caused the rental vacancy rate to triple in just a few years, rising as high as 7.6 percent in 2003. Which in turn spurred many landlords to sell out to developers.

When a building is sold for conversion, tenants are, by state law and Minneapolis ordinance, given the first shot at buying their units, but for many middle- and lower-income apartment dwellers, that's cold comfort: After taxes, condo association fees, and insurance are added in, monthly payments on these upscaled condos can run up to three times the cost of rent on the apartments they used to be. For a lot of people, such a sale is effectively an eviction notice. Another common complaint about conversions is that the renovations are very often cosmetic rather than structural—a new kitchen counter here, some new windows there, rather than new plumbing or a new roof.

"There are many concerns we have with the issue," says Chris Geopfert, an attorney with the Housing Preservation Project (HPP), a nonprofit that tracks affordable housing in the Twin Cities. "One, you have the loss of affordable rental housing. Two, we're finding that tenant protections don't exist. Then you have the new buyers, who think that they're responsible for everything only within the four walls of their unit, and not the rest of the building. And you're seeing a profound effect on the neighborhoods and communities—an effect on the economic diversity of neighborhoods as well as people being displaced from their communities."

Tenants and housing advocates aren't the only ones bothered by the trend. Steve Minn, a former Minneapolis City Council member who is now a real estate developer himself, has no small amount of distaste for the conversion boom. "It's a dilemma that has to be corrected in the marketplace," says Minn, pointing out that he does not do conversions. "It's a bomb that's waiting to happen."

Certainly the condo conversion rate has exploded over the last half-decade. According to a September 2005 report by Housing Link, an affordable housing assistance group, a total of 14 local rental units were converted to condominiums in 2000. In 2004 that number

was over 1,000, and last year the number soared to more than 1,300, as some 212 buildings were sold and renovated for prospective homeowners. By HPP's count at the end of last month, 2,921 apartments had been made over into condos in the last five years. This constitutes nearly 4 percent of the city's entire rental-housing stock.

If that seems like a small number, the impact on the city's share of affordable housing is grossly disproportionate. According to reports culled from the city of Minneapolis's Affordable Housing Initiative and the Department of Community Planning and Economic Development, the city is losing housing stock that's affordable for families earning 50 percent of the metro area's median income. (The federal Housing and Urban Development department set the metro median income for a family of four at \$73,993 in 2000 and \$77,000 last year.) In 2004, for example, the city created 214 rental units affordable to people earning that median: That translates to \$963 a month in rent for a family of four with an income of \$38,300. That same year, some 402 units of "affordable" housing at the 50 percent mark were converted to condos, which were then put up for sale at more than the affordable rate. (A 2004 survey by HPP and a nonprofit called the Family Housing Fund found that less than 25 percent of all conversion units were priced at an affordable level, roughly \$115,000 or less.) That adds up to a net loss of 188 affordable rental units in 2004, according to Housing Link.

Not surprisingly, these conversions of affordable units are happening for the most part not in poorer neighborhoods, but in more desirable areas. Many of the conversions have occurred in relatively well-kept south Minneapolis complexes built in the 1920s and in high-rise buildings of more recent vintage—rental stock that is typically referred to as "class A" or "class B" property.

Alan Arthur, president of the Central Community Housing Trust, a nonprofit developer, says that part of the appeal for buyers is that conversions are priced fairly cheaply compared to other properties around them. As such, they become more attractive in a housing market that's flattening out. But the conversions "are not very well done," he claims. "There's no question that that condo conversions look like they're lower priced," Arthur adds. "But it very well might collapse, as the interest rates go up and the new owners are priced out."

Critics also maintain that most of the conversion units are bought by speculators trying to make a quick profit by driving up prices in the short term, though they often leave owners at a loss in the long term. In any case, there's little the city, county, or state can do to stem the trend—there are few laws on the books that deal with conversions.

"It's a cyclical part of the housing market," says Steve Minn, adding that rising interest rates are already putting new owners and developers in the hole financially. "Every 'A' and 'B' level renter"—that is, people earning perhaps \$40,000-\$70,000 a year—"was a prime candidate to be sold a conversion. The trouble is, 18 months ago, you had these units that were going for a buck-five, a buck-ten per foot for monthly rent. Now, with a sale, you've got property going for \$225 a foot."

Market concerns aside, Minn, Geopfert, Arthur, and pretty much every other observer concur on one point: It's the people who can least afford to be displaced who are losing their homes in the process. "Next door," notes Claude Jones, "there was a mentally ill girl who had lived here for year, and she's gone. There's got to be some kind of human rights piece to this. You displace people on a massive scale and turn up a community. Then you wonder, where are these people going to go?"

Talk to anyone about the condo conversion market long enough, and Clark Gassen's name inevitably comes up. The 31-year-old is one person who has made out extremely well in the conversion boom. Though he got into the real estate business by working for his father Reginald at Gassen Companies, Clark has made a name for himself in the past 18 months with his own company, Financial Freedom Realty, which has specialized in acquiring properties such as the Greenhouse complex and others in the Uptown and southwest/chain-of-lakes neighborhoods. (A map of local condo conversions prepared by Housing Link shows heavy activity in the region. In City Council Wards 13 and 10, which take in the areas surrounding Lakes Calhoun and Harriet, there have been 477 and 564 condo conversions respectively since 2000. Only Ward 7, which includes most of downtown, has a higher tally, at 897. But the downtown conversions, most observers note, are being done mainly to warehouse and commercial space, where there was no residential component before.)

For a while, Gassen and other conversion developers managed to operate under the radar of media and politicians. But Gassen has seen his profile raised in the last year, culminating with a February 5 New York Times feature that dubbed him a "condo-conversion impresario" while noting that his business practices have aroused controversy.

Contacted by City Pages, Gassen declined to be interviewed about the subject and professed to be winding up his condo-conversion ventures in Minneapolis. "I'm not talking any more about condo conversions," Gassen said. "We're proud of what we've done, but we've moved on to another market with new projects. We've got an exit strategy, and we're done with conversions."

If that's true, it has nonetheless been quite a run. The Southwest Journal has reported that Gassen is responsible for converting 400 units in some 20 buildings in the area since 2004. According to the Times, Gassen has spent about \$55 million buying buildings and upgrading units, usually to the tune of about \$20,000 each. Most of the units then sell for \$150,000 to \$300,000. One of Gassen's more visible current projects is a new-construction project called the Edgewater, a six-story structure that is currently being erected on the eastern shore of Lake Calhoun where there once was an apartment building. Gassen and Financial Freedom, whose offices are across Lake Street from Calhoun Square, likewise have become involved with the Ackerberg Group in an effort to build a controversial high-rise in the parking lot behind the Lagoon movie theater in Uptown.

Gassen himself has acquired a reputation around town among former renters, some of whom have complained of inadequate notification, stress and inconvenience due to rehab

work, and buildings in disrepair. Before uttering Gassen's name, Steve Minn says, "I don't stick lipstick on a pig and call it a condominium." Gassen, claims Minn, is selling an inferior product. "They put in new cabinets and a granite countertop and call it an upgrade, like it's a new unit," Minn says. "Frankly, it's misleading."

Misleading or not, what Gassen and his conversion cohorts are doing is also perfectly legal. But conversion developers have stirred plenty of resentment all the same. Take the story of Rachel Kuenzel, a 26-year-old graduate student at the U of M, who as of last week was looking for an apartment for the second time in less than a year. In April of 2005, she and her roommate received notice that their two-bedroom, \$900-a-month unit near 33rd Street and Colfax Avenue South was being sold and converted. They could buy the place, they were told, for \$275,000.

By July 1, the pair had moved into a two-bedroom, \$1,000-a-month apartment on Emerson Avenue near Franklin Avenue. Last month, Kuenzel received notice from her landlord that the building had been sold to a developer. Kuenzel's not in the market to buy anything—and notes with some disdain that she wouldn't invest in her building anyway—and will be moving again. "It's sort of unbelievable that it's happening again within nine months," she says. "But I'm resigned that this is what's going to happen. I would say that if this trend continues, the city is going to have to put more resources into affordable housing."

Conventional wisdom would seem to indicate that lower-income housing complexes are safe from the conversion bandwagon. But even housing advocates were given pause when it looked like Trish Brock might become another victim of the conversion movement. For 20 years, Brock has lived in a cramped, 400-square-foot one-bedroom at 1801 First Avenue South, a 20-unit brownstone in the Stevens Square neighborhood that offers Section 8 housing. Most of the tenants, like Brock, have lived there for a decade or two, and struggle with health issues that keep them on a fixed income.

Brock has been on Social Security disability since 1986. She has had seven surgeries to repair injuries she suffered at the hands of physical abuse when she was a child, and by her own admission has "extremely sensitive mental issues." The affordability and location of her dwelling are essential for her and her fellow tenants, which is why nearly all grew alarmed when the building was sold last April. "I haven't been sleeping," Brock says. "I'm having migraines and headaches. I'm not able to make the leap to thinking about having to move."

Brock jokes about the thought that anyone might be willing to spend a quarter of a million dollars to live in a building that buttresses what she calls "Homeless Alley," but the idea that her building could be converted is not so far-fetched—the brownstone just down the block at 1821 First Avenue South is already undergoing conversion. In September, at a public hearing on affordable housing before the City Council, residents and advocates pled with council members to forestall the possibility of conversion. For now, the HUD Section 8 contract has been extended to 2007, but Brock, like Claude Jones, feels as if she's living on borrowed time. "Some of us are interested in the long-

term for future residents," she says. "Section 8 can happen to anyone. Are we looking at just making people homeless and putting them on the street?"

There are signs that the current wave of condo conversions is already ending. Clark Gassen's apparent cooling on the market is one indication; another is that the market for rental properties seems to have stabilized. And, at least anecdotally, it's no secret that developers around town aren't selling conversions like they were a year ago.

According to a recent report by GVA Marquette Advisors, a real estate consulting firm, rental vacancies held steady at 5.5 to 6 percent throughout 2005, following high-water marks of 7.6 percent in 2003 and 7.3 percent in 2004. (Experts say a rental vacancy rate around 5 percent is most conducive to a stable market—too high to allow price-gouging by landlords, and too low to trigger a sell-off of rental units to developers.) Additionally, the average metro rent has held steady in the past couple of years, barely moving from \$849 a month in 2004 to \$851 a month last year.

The healthier the rental market, most analysts say, the less market there is for quickie conversions. "New apartment construction has slowed," in the seven-county metro, the GVA Marquette report continues. "In 2005, 925 units were completed, compared to 1,851 in '04 and 1,978 in '03. Actually, the net increase in supply during 2005 was only about 125 units, as more than 800 rentals were converted to condos. Conversion activity has slowed somewhat."

"There was a brief flurry of [conversion] activity, then it kind of went away," concurs Sam Newberg, who works for Dahlgren, Shardlow and Uban, a downtown Minneapolis urban development research firm. "I'm not as fearful of condos as some people. But there are some projects languishing." As to the impact of condo conversions, Newberg notes that, despite the real estate boom of recent years, only 80 new units of housing have been built for sale in Uptown in the last decade. The rest was converted housing.

This worries people like the City Council's Ward 9 rep, Gary Schiff, who heads the Zoning and Planning Committee and believes conversions are creating what's bound to become a chronic problem in the city's housing stock. "This is sucking the energy out of any new kind of construction, for starters," Schiff contends. "More than that, you've got buildings [getting converted] that were never built to last in the first place. You've got 1960s three-story walkups that are being renovated and sold, and it's not the best kind of housing to have. But now you're never going to get rid of them."

Newberg concedes that part of the market was driven by flippers, people who wanted to buy quick and turn the units for profit: "It's conceivable that the buyers could end up putting them back on the market as rentals. That could happen."

"The upshot," says Minn, who claims that a significant number of converted condos could wind up sitting empty, "is that you've got developers and buyers who are upside-down on this. The mortgage rates are up, the vacancy rate is up, and you've got people who were displaced who otherwise would be committed urbanists. They've moved on

because they had to. The displacement cost is something that everybody pays. The renters leave, the buyers fail, and the buildings sit empty.

"At some point," Minn continues, "you're going to have people back at City Hall, asking that more affordable housing be created."

It's an issue that certainly is starting to reverberate around the City Council chambers. Last fall, began exploring the prospect of new city ordinances designed to prevent some of the excesses of conversion development. He began pushing for measures that would, among other things, require better notification of a building sale to tenants, better notification of a sale to the City Council, relocation benefits to displaced tenants, and the creation of escrow accounts to pay for upgrades in buildings left in structural disrepair after a conversion.

When Schiff's proposals had made their way through committee and came before the full council in December, they were collectively voted down by a 7-6 margin. In the end, all the city agreed to do vis-a-vis condo conversions was to expand its Truth in Housing inspections parameters, essentially forcing inspections to include the entire structure—roofing, heating, wiring, etc.—rather than just the individual unit. (Schiff says that he means to revisit his proposals with the reconfigured council that was sworn in last month.)

But even if the market is moving away from conversions for the time being, the problems spawned by the boom that's now passing are far from over. Chris Geopfert, the attorney for the Housing Preservation Project, says she still gets calls every week from people who are being displaced. "I think the signs in the marketplace are that we've passed the peak for the time being," says Gary Schiff. "But I have no doubt the trend will come back."