

Condo rush consumes low-cost units

Minneapolis renters finding fewer options

By Beth Silver
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MINNEAPOLIS -- Surrounded by quaint restaurants and shops, within a quick drive to downtown and just blocks from a chain of lakes, this city's Linden Hills neighborhood was the perfect place to live, and, at \$720 a month in rent, came at an affordable price.

Then Jeff Merriam got kicked out. Twice.

Hundreds of apartment dwellers in Minneapolis recently have had to make way for condo buyers. In Merriam's case, that meant a move a year ago from an apartment he had rented for six years, only to learn shortly after he hauled his belongings across the street that his new apartment was going condo within a matter of months as well.

"No sooner did I sign the lease for this building than the building sold and they announced they were going to convert to condos," said Merriam, who was laid off from a job at a sales training company and was packing up his one-bedroom apartment for a move to Michigan. "I just love this little neighborhood, but I could never afford a home here."

Since 2000, developers have bought almost 2,600 apartments units in 188 buildings in Minneapolis, offered to sell them to the current renters and then put them on the market as condos.

The trend really took off in the last two years, when more than 2,000 apartments went condo.

Most of the apartments have been in small, older buildings in southwest Minneapolis neighborhoods. And most have at least doubled the monthly cost to live in them, according to a recent survey conducted for a tenants' rights organization, HOME Line.

"These things are coming fast and furious," said Patrick Todd, a city assessor. "You have affordable housing renters vying for the same square footage as first-time home buyers--both trying to occupy the same square footage. So who should be there?"

Although more housing is built in the city every year, the number of units that are affordable to the poor continues to dwindle as a result of the condo conversions, according to the city's housing figures.

Earlier this year, tenants' rights organizations called on city leaders to put a temporary stop to condo conversions.

"The city is putting a lot of its resources into filling this gap, but the condo conversion phenomenon is undermining all of their efforts," said Christine Goepfert, an attorney for the Housing Preservation Project.

That moratorium idea lost momentum, though, when the tenant groups' biggest ally on the City Council suggested instead that this year's council enact ordinances to curb the ill effects conversions may have on the poor.

Councilman Gary Schiff said one of the biggest concerns is that neither city ordinance nor state law requires much disclosure when it comes to newly converted condos.

Too often, he said, developers spruce up a building with paint, landscaping, granite countertops and stainless steel appliances but neglect a building's structural components.

A buyer is entitled to a Truth in Housing statement to reveal potential problems within the individual unit. But common areas, such as the building's roof and plumbing, or its heating and cooling systems, aren't subject to the disclosure statement.

The result, he said, is that new buyers could be stuck with huge repair bills shared among only a few tenants.

"If you have a small fourplex, the roof starts leaking, you've got four potential first-time homebuyers with no savings, no equity in the building, suddenly needing to get a loan for a major repair. They could potentially end up in an upside-down position," Schiff said.

That would mean they owe more money on a unit than what it would bring in a sale.

In addition, Schiff said he would propose that the council require building owners to give displaced renters the equivalent of two months' rent for relocation.

Dan Mack, owner of Mack mortgage, said if a renter is paying \$750 a month, to keep the same monthly payment he could only afford a \$100,000 condo on a 30-year mortgage if the condo's association fees and insurance were factored in.

That figure also presumes the renter has a \$25,000 down payment.

But most of the newly converted condos in Minneapolis are selling for at least \$200,000, Mack said.

Financial Freedom, one of the city's most prolific condo converters, provides potential condo owners with a statement from an engineer hired to analyze the building's major components, said the company's owner, Clark Gassen.

But stricter requirements of all condo converters could help the market, he said.

"I've been in a lot of conversions I haven't represented where I questioned if they should be marketed to homeowners," Gassen said.

Gassen said the number of renters who buy in the same building varies from 5 percent to 20 percent.

The rest are offered an apartment, with financial breaks, in one of Gassen's other buildings, he said, but few take him up on it.

With apartment vacancy rates at 6 percent, he said he doesn't see a problem for those who want to continue renting. And the condo conversion market may be slowing down, he said.

George Karvel, a real estate professor at St. Thomas University, said the market decides who lives where. Housing markets are strong right now, so the rental market is relatively weak.

Eventually, the real estate pendulum will swing in favor of investment in rental properties again, he said.

Currently, the value of a unit as a condo is higher than it is as a rental apartment. A developer might pay \$60,000 for a unit as a rental property but can sell it as a condo for double that, he said. And builders constructed more of the type of buildings developers seek to convert into condos in Minneapolis than in St. Paul, he said.

While Minneapolis has had hundreds of rental units reincarnated as condos, St. Paul has had only a few, Goepfert said.

In Merriam's case, the company that bought his apartment building gave him ample warning that he'd have to buy or move. Buying his first-floor unit wasn't an option, though, since his new monthly payment of \$895 would have shot up considerably on a \$194,000 mortgage, he said.

What troubles Merriam is the construction noise and clutter he's dealt with since the middle of September.

He's had to let construction workers in the apartment, take his belongings out of his closets so they could cut a large hole in it, and put up with no water for much of the day as they attempt to install washers and dryers.

"As an existing tenant that has no intention of purchasing, I have no rights," Merriam said.

"This is not what I signed up for. I have no recourse. I couldn't tell them they couldn't convert."

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