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Downtown Minneapolis' pandemic 'ghost town' image is quickly fading for wannabe residents

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See Correction/Clarification at end of article

The Covid-19 pandemic put a damper on much of what makes downtown living so appealing — the restaurants, the nightlife, the car-free commutes — but as downtown Minneapolis gradually reopened this spring, interest in apartments and condos rebounded in the urban core.

Among those closely monitoring the uptick was Luigi Bernardi, a downtown resident and co-developer of the 42-story Eleven condominium tower nearing completion on the Minneapolis riverfront. He described a stark turnaround from the bleakest days of the pandemic in 2020, when to him downtown Minneapolis looked and felt like a ghost town.

Even then, Bernardi was convinced he was living through a pandemic-induced “blip” in the ongoing transformation of the city’s core, which has seen its residential population grow 66% since 2006 to more than 53,000 residents, according to the Minneapolis Downtown Council. But that blip hit hard at the sales office for Eleven, which he is developing in partnership with Ryan Cos. US Inc.

“Before the pandemic, we were red hot. We were having a couple sales a week. Then riots and the pandemic occurred, and it was like a standstill. Everything stopped,” he said.

A year later, things are moving again — and not just sales at what promises to be one of the priciest condo towers downtown, where buyers have claimed more than two-thirds of the units. While vacancies remain high in the rental market, apartment building owners say leasing activity has picked up significantly in 2021.

“A huge change has gone on since the start of spring. There’s been a dramatic increase in leasing across the board, in buildings not



NANCY KUEHN | MSPBJ

Carl Runck of Ryan Cos., left, stands outside Eleven condominium tower with co-developer, Luigi Bernardi. After a slowdown during the pandemic, sales of Eleven's pricey condominium units have picked up again, a sign of a reviving downtown housing market.

just in downtown but around downtown,” said Kelly Doran, who co-developed The Expo, a 369-unit luxury apartment project just across the river from downtown. “... There’s still some incentives on the market. There’s still some free rent and other things. But I think you’re going to see in relatively short order a reduction in that, as well.”

Market correction

Downtown apartments are still sitting vacant at metro-leading rates, but the pandemic can’t take all the blame. Mary Bujold of real estate consulting firm Maxfield Research said apartment supply downtown was starting to outpace demand even before Covid-19 hit Minnesota in early 2020.

“The market had started to soften, and then the pandemic hit. That just deepened the challenges for properties that were coming online at that point,” Bujold said.

Downtown Minneapolis was ground zero for the region’s post-Great Recession boom in apartment development. Hundreds of new units opened each year, bringing the total number of market-rate apartments to more than 14,000 by 2020.

Developers delivered 1,744 new market-rate units downtown in 2020, the most since at least 2013, according to a report from Minneapolis-based real estate consultancy Marquette Advisors. Those units accounted for 23.5% of the new market-rate supply added across the entire metro. Another 343 market-rate units came online downtown in just the first quarter of 2021.

Vacancies are also rising downtown and have been since at least 2018, according to Marquette Advisors. The firm pegged the downtown apartment vacancy rate at 10.4% in the first quarter of this year, up from 6.3% in the first quarter of 2020.

While vacancies have risen across the city, to 6.8% for the first quarter of this year from 4.3% for the same period in 2020, they’re rising faster downtown.

“You were seeing a natural overbuilding, which I think is the only way housing markets correct themselves,” said George Sherman, CEO of Minneapolis-based apartment developer Sherman Associates, which has three luxury apartment buildings open downtown and two more projects in the works. “We were building more housing than needed, and we’re seeing that correction occur now along with the Covid correction.”

APARTMENT VACANCY

Apartment vacancies increased across the metro during the pandemic, and downtown Minneapolis experie

● Q1 2020 ● Q1 2021



Source: Marquette Advisors

Cool condo market

The market for downtown condos and town homes is also showing signs of a rebound after taking a dip in 2020.

Minneapolis Area Realtors tracks a 12-month rolling average of pending sales, recording a decline of 15.6% in June 2020 compared to the same month in 2019. Pending sales reversed course a year later and in June 2021 were up 10% year-over-year.

But in a blazing-hot metro housing market, downtown Minneapolis looks relatively cool.

It was clearly still a sellers' market downtown in June 2020, when according to MAR estimates there was 3.3 months of supply, a metric that compares active listings to pending sales. Supply was up to 5.8 months as of June 2021, close to what the real estate industry considers a balanced market.

The supply increased across Hennepin County over that same period, but not nearly as much. There's still a lot of would-be buyers chasing a limited supply of homes.

You can see the dynamic play out in the median sales price data tracked by MAR. Snapshots taken in June 2019, June 2020 and June 2021 show prices for Hennepin County homes holding steady, while the median sales price downtown steadily declines, from \$399,479 to \$347,500 to \$330,000.

Carl Runck, director of real estate development for Ryan Cos., Bernardi's partner on the Eleven project, predicted the downtown housing market was due for a post-pandemic renaissance. He noted that the area's most heavily residential neighborhoods have quickly regained much of their pre-pandemic vibrancy, including the Mill District, where Eleven is under construction.

"You look out into the neighborhood, and it's buzzing," Runck said.

HOUSING INVENTORY

Housing inventory is measured in months of supply, a metric that measures active listings against closings. D grow faster than the rest of Hennepin county during the pandemic, hinting at lower demand for its condos ar

Note: Ear
Source

Challenges ahead

That doesn't mean downtown is out of the woods, yet.

Doran said his suburban apartment portfolio performed “extremely well” throughout the pandemic, benefiting at least in part from some migration out of the urban core.

Libby Starling, director of the Community Development and Engagement department at the Federal Reserve Bank of Minneapolis, said it's not clear yet whether the pandemic will lead to a long-term reversal of a trend that saw more people moving into downtown.

“We certainly hear about people who are taking advantage of remote work and relocating to Montana or relocating to smaller towns with good broadband connections during the pandemic,” Starling said.

Like major cities across the country, Minneapolis experienced a rise in crime rates during the pandemic, and Starling said there remains a risk that growing concerns over public safety eventually discourage investment in new development. Something else to watch, she added, is the development community's response to both the city's recently adopted inclusionary zoning policy, which increases project costs by requiring affordable units, and the ongoing debate over a potential rent-control ordinance.

Sherman, though, remains bullish on downtown, where his company has some 400 apartment units in the pipeline. The pandemic cast a pall, but it's fading, he contended, noting that leasing activity at his projects has been particularly strong in the past six months, ever since the rollout of vaccines.

“We're going to have to continue to be aware of people's security. We have upgraded many of our facilities for that issue. But I think people still very much want to be downtown,” Sherman said. “Minneapolis continues to have a very vibrant riverfront. You walk around the North Loop, and it's like pre-Covid levels (of activity). We're just starting to get that vibrancy in the Mill District.”

Correction/Clarification

A previous version of this story misstated the height of the Eleven condo tower. It is 42 stories, not 41.

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