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Cover Story

Call it a comeback for Twin Cities town homes

With supply of single-family homes low, town home sales are climbing steadily**🔑 SUBSCRIBER CONTENT:**

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At age 70, Doug Croucher is no longer physically able to maintain his home like he used to.

Recent health issues have forced him and his wife, Mariann, to scale back grooming their yard and taking care of other property needs.

So when the couple decided to move from Oregon to Minnesota to be closer to their grandchildren, they began searching for a house that would require less maintenance, but also allow them to still own a home.

They found what they were looking for in a moderately sized, one-level town home in Waconia, where landscaping and snow removal are maintained by a homeowners association.

As more retirees, empty nesters and baby boomers like the Crouchers elect to downsize, town homes will become the next stage in home ownership for many of them. And with median prices for homes continuing to rise across the Twin Cities due to low inventory, new buyers are starting to realize town homes can give them the benefits of home ownership.



NANCY KUEHN | MSPBJ

Pulte Homes town homes under construction in Apple Valley, MN.

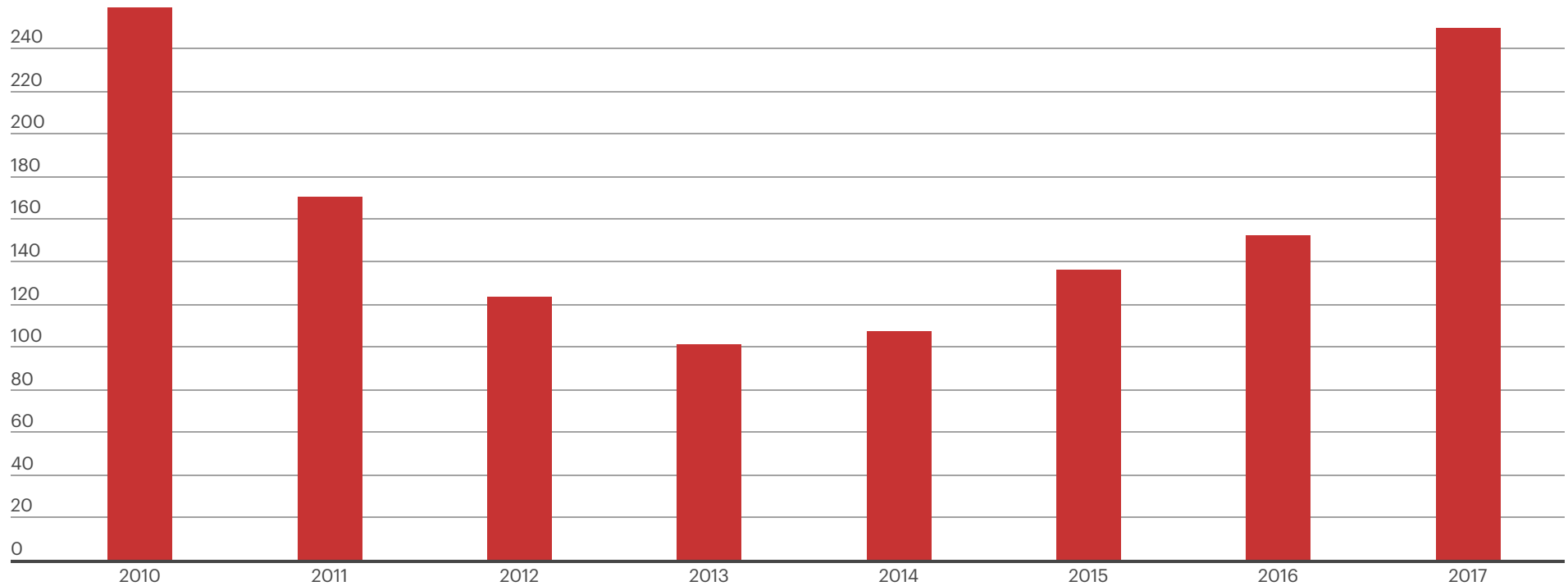
More town homes on the way

Permits for town home construction through the first two months of 2017 were nearly double the amount of permits pulled during the same period year ago, with 27 town home communities underway this year, according to the [Builders Association of the Twin Cities](#).

Meanwhile, new listings and total available town homes in the Twin Cities have continued to increase. In February, developers added 115 newly constructed town homes to the 13-county metro-area market, a 45.6 percent increase from the same month in 2015.

Town home Rebound

Year-to-year look at new town homes added to market in January and February, combined, in each year:



Source: Minneapolis Area Association of Realtors

The Twin Cities hasn't experienced this kind of surge in town home construction since the late 1980s, said [Herb Tousley](#), director of the real estate degree program and Shenehon Real Estate Center at the [University of St. Thomas](#).

A number of national builders are pitching in on that trend. Some of the projects in progress include a 143-unit town home and villa community in Victoria by M/I Homes Inc. of Columbus, Ohio, and two 50-plus-unit town home communities in Chaska and Plymouth by Atlanta, Ga.-based Pulte Homes.

Pulte Homes is planning to sell 500 total new homes in Minnesota this year. A quarter of that will be town houses — all three-story units equipped with attic space and some rooftop terraces, said Jamie Tharp, vice president of sales and marketing for Pulte's Minnesota division. That commitment to town homes in 2017 is a 20 percent increase from 2016.

Miami-based Lennar Corp., the largest builder in the Twin Cities over the past decade in terms of volume, is preparing to build a 122-unit town home community in Prior Lake.

In a recent interview with the Business Journal, John Rask, vice president of land development for Hans Hagen, a division of M/I Homes, said the company is reinvesting in town homes to meet market demands.

"We look at town homes as being a viable option for many people who not only want a home at a more affordable price point, but who still want home ownership," Rask said.

A slight recession in the early 1990s slowed town home building, and developers opted to build condominiums instead of town homes. When builders tried to invest in town homes again, the terrorist attacks on Sept. 11, 2001, led to another downturn in the economy, Tousley said.

The product has now become a more economical choice for builders.

"We've had such a shortage for existing homes for sale, and that's been that way for several years now, so homebuilders are looking for ways to add to the housing stock," he said. "The price of land has gone up along with fees and everything else they have to pay, so it's really hard to build a single-family home in that moderate price range. [Town homes enable] them to get more housing units on a piece of land. They can get the [prices] down into a more moderate price range. They're finding the demand is there."

In 2016, there were 10,541 town home sales in the 13-county metro-area, a 26 percent increase over 2014.

Closed sales for town homes in the Twin Cities

From 2014 through 2016, closed sales for Twin Cities' town homes increased by 2,184 homes. Below is a look at the increase during that time period.

2014 2015 2016

Source: St. Paul Area Association of Realtors

"I think it's a direct reaction to what we've been talking about," said David Siegel, executive director of the Builders Association. "We need a more affordable product."

A product for an aging population

Roughly 285,000 Minnesotans will turn 65 at some point this decade, which is more than in the past four decades combined, according to the Minnesota State Demographic Center. By 2035, Minnesota's 65-and-older population will eclipse the 18-and-under age group for the first time in state history.

In 10 years, people over 65 will account for 43 percent of the state's population.

"There are downsizers who want to get rid of their big house," said Cotty Lowry, president of the Minneapolis Area Association of Realtors. "With town homes, especially if they're single-level or not many levels, you can get your main bedroom on the level so you can move in and not worry about stairs. You can go to Florida or Arizona, lock it up, and somebody will take care of the [landscaping] for you."

While some builders focused solely on single-family homes at the turn of the century, Dave Kenneth read the signs of an aging population and decided to give himself a head start in the town home market.

After spending years with now-defunct Hopkins-based Rottlund Homes, Kenneth started WoodRidge Homes in 2005 and focused on semi-custom, detached town homes that are maintained by homeowner associations.

"All of these periodicals and information I was gathering was talking about impending baby boomers and how many were going to retire per day," Kenneth said. "It was a combination of that, doing a niche product, and not being able to compete with the nationals on the single-family level. I didn't want to bump heads with them every single time I built a house."

Over the past decade, Kenneth has developed three town home communities in Waconia — Somerwood Cottages, Interlaken East and West, totaling 101 lots, including a new home for the Crouchers, who plan to move in by June.

In Waconia, the Crouchers' feel they'll have the space they need without the hassle of landscaping and upkeep. The town home they chose comes with a finished basement.

"In Waconia, you can live 100 percent on the main level," Doug Croucher said. "You can do without the stairs if that becomes necessary. With a downstairs, however, it gives us a little more room for entertaining grandkids. The stairs are a straight shot."

Once a pioneer for building town homes in Waconia, Kenneth's new developments compete with new town homes being built by CalAtlantic and Toronto-based Mattamy Homes.

“We’re surrounded by all the nationals,” Kenneth said. “When we started in 2005, they didn’t have a presence in town.”

An option for those looking to buy

Demand for town homes has spiked in the past two years. This past February, there were 77 pending sales for town homes in the Twin Cities, a 60.4 percent increase when compared to the same month in 2016 and a 71.1 percent increase when compared to February 2015.

Tousley said town homes are attractive to people looking to buy their first home, especially millennials.

“There are a lot of people in that first move-up situation. I think that is going to drive a lot of demand [for town homes],” he said. “Interest rates are still low enough that home ownership in the Twin Cities is pretty affordable compared to most other places.”

Prior to the housing collapse, Kenneth said families bypassed buying town homes and went straight to single-family units. Now, town homes seems like the best option.

“Rents are going up and people are renting apartments. If they’re renting, they might as well buy a town home to get the benefits of ownership,” Kenneth said.

While some may argue town homes will decrease the value of surrounding single-family homes, Tousley believes the contrary.

“The cities like it because it increases the tax base,” he said. “There are requirements in terms of how they look. If you’re building a town home in Eden Prairie, when you get the permit, the city is going to make sure they maintain the character of Eden Prairie. They won’t let you come in and build a piece of junk. If anything, if it’s done well, it might increase values in some areas.”

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