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Nonprofit takes on troubled apartments

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3032 Pillsbury Ave., one of 16 buildings acquired to preserve affordable housing.

Over the course of 14 years at 3121 Pleasant Ave., Mrs. Dominguez paid rent to two owners later stripped of their rental licenses, saw rent increase from a third owner and worked with Legal Aid to take a fourth landlord to court. In 2018, she joined other tenants renting from Villa Nova Real Estate Holdings to tell Hennepin Housing Court about daily cockroach sightings, leaky windows, a unit with two layers of wet carpet, an intruder entering an unlockable window and a mold investigator whose hair became damp inside a humid apartment. Dominguez said she still gets a court-ordered \$200 monthly reduction in rent, because although the windows were replaced, she's still waiting for other repairs a year later.

Now the affordable housing nonprofit Aeon has purchased her building, along with 15 other apartment complexes, with a commitment to keep rents affordable for the long term. Given her experience, Dominguez is cautious.

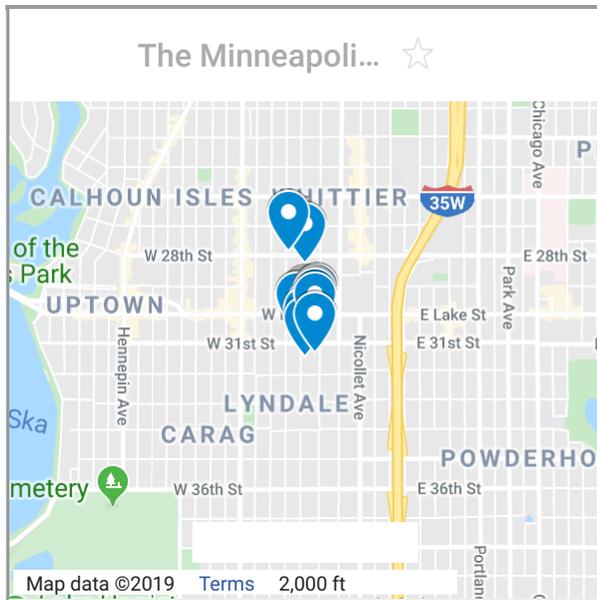


3121 Pleasant Ave.

“I want to wait and see,” said Dominguez, who works with Inquilinxs Unidxs Por Justicia (United Renters for Justice) and, speaking through a translator, requested her first name not be printed. “We would like it that they don’t raise the rent, especially not year after year. And we also want to make sure that when we call, repairs are made.”

Aeon purchased the 220-unit portfolio in July for \$26.9 million, according to property records. Mayor Jacob Frey highlighted the transaction in his budget address the following month, saying it would help preserve affordable housing and prevent displacement.

Most of the buildings purchased were in Whittier or Lyndale: 2741 Grand Ave. S.; 3018, 3020, 3024, 3032 and 3114 Pillsbury Ave.; and 2611, 2815, 3019, 3023, 3027, 3030, 3105 and 3121 Pleasant Ave. The purchase also included two other buildings in the St. Anthony East neighborhood and in Edina.



Before the properties went on the market, Aeon President Alan Arthur said they got the tip from city officials, community advocates and brokers. (A law now in effect requires landlords to give the city a heads-up when affordable properties go up for sale.)

“Every week we get those kinds of calls,” Arthur said. “We’ll continue to purchase them as long as we have equity partners and as long as communities help us do it.”

He said Aeon typically competes with 7-20 other bidders to buy a new apartment building.

“Prices are skyrocketing and maintaining affordable housing isn’t easy,” said NorthMarq Vice President Michael Padilla, who worked on the sale.

He said the demand for apartment buildings is still very strong, especially for buildings like these where there is room to rehab and raise rents.

“So you end up paying a pretty high number on a per unit basis for a transaction like this,” he said. “Trying to maintain the affordability requires the equity coming in to be very patient and affordable. That’s where the City of Minneapolis comes in, and Greater Minnesota Housing Fund. Otherwise these transactions wouldn’t be possible.”

To make the deal work, Aeon relied on a \$4.5 million zero percent interest contribution from the City of Minneapolis’ NOAH (Naturally Occurring Affordable Housing) Preservation Fund. Aeon is also using the city’s “4D” program that gives a 40% property tax reduction to landlords that keep units affordable. Other contributions came from the City of Edina and the Greater Minnesota Housing Fund. Freddie Mac provided a loan with more flexibility designed for NOAH properties. Aeon relies on equity partners whose expectations for return are lower than the marketplace, Arthur said.



3114 Pillsbury Ave.

The city’s \$4.5 million contribution, which will be repaid, represents all of the money budgeted for the NOAH Preservation Fund since 2017. Given the competitive apartment market, other groups tried and failed to use the money to buy affordable housing, said Dean Porter-Nelson, the city’s housing stability specialist.

“We’re really optimistic that this will enable this housing to be a real asset to the current residents as well as to the neighborhood in general,” he said.

“I think it’s a very good thing,” said Luke Grundman, managing attorney at Mid-Minnesota Legal Aid, who represented the Pleasant Avenue tenants in Housing Court. “I hope that what Aeon will do is keep the properties affordable, because they are in neighborhoods that are otherwise at risk of gentrification, but still give the families who live there the healthy and safe homes that they deserve. Very hopeful that’s what Aeon will do. That’s what its track record has been.”

Aeon has purchased roughly 1,750 units in the past four years, but it’s not enough, Arthur said. The metro lost an estimated 10,500 units from 2010–17, according to Minnesota Housing.

“That is a recipe for disaster. We are facing the worst housing problem for low-income people since the Great Depression in the 1930s,” he said.

The new portfolio would be available to renters who make less than 60% of the area median income, equating to a maximum income of \$42,00 for an individual, or \$60,000 for four people. That means Aeon could charge up to \$1,125 for a one-bedroom unit.

In a statement, Aeon said it hasn’t raised rent levels, which currently stand between \$725 and \$1,450. Two residents said Aeon started charging \$40 per month for parking.

“A lot of people in these properties we are buying are already paying 50% of their median income for housing. So it wasn’t super affordable for them when we bought it, but it’s better than being on the street,” Arthur said.

In about 10 years, Arthur said, the buildings will require refinancing and a significant investment in upkeep. While most landlords would raise the rent to cover that, Aeon will need to find other funding sources, he said.

“The truth is, no affordable housing in the country is automatically affordable, no matter what the ownership is,” he said.

Villa Nova Real Estate Holdings LLC previously bought the building portfolio in April 2017. Villa Nova was searching on a tight deadline for property to buy as part of a 1031 tax-deferred exchange related to the sale of a Beverly Hills home valued at more than \$7.5 million, according to court documents. After buying the Minneapolis properties, Villa Nova spent nearly two

years in litigation over alleged fraud, “secret” consulting fees and a dispute over ownership. The suit was settled in June. Attorney William Skolnick, who represented Villa Nova, said they landed on a settlement that was acceptable to all parties.

Araseli Corral, an employee at Aeon and resident of 2741 Grand Ave. S. since May, is optimistic. She said prior management didn’t call her back when she complained about doors propped open, but Aeon is responsive and the doors are secure.

“It makes me feel really safe,” she said. “I’m just excited to see what’s to come. For me as a resident here, it feels good to know that if I have an issue, it’s going to get taken care of and it’s not just going to be thrown on the backburner.”



A sign in the window at 2741 Grand Ave. S. states: “Now Entering Renter’s Territory,” with the logo of the renter advocacy group Inquilinxs Unidxs Por Justicia.

Another resident in the same building said she’s ready to move out. Sheila, who requested her last name not be printed, said she’s had a leak in her apartment since July, and she placed trash bags and cans on the wall to deal with the water, which dripped on her TV. Workers patched the wall, she said, but the problem persists. Plus the door code doesn’t work, and the heat only works in one room, she said.

“There are places that are more expensive. But if they kept it up better, I’d be fine paying a little bit more,” she said.

Arthur said water infiltration has been a major issue, and they’re investing at least \$1 million in repairs to the buildings.

Villa Nova, the prior landlord, planned to gradually renovate and increase rents to market-rate, according to court documents. Workers repaired the roof at 3121 Pleasant Ave. during the 2018 trial, and issued a contract to replace the windows in every apartment. The former property manager did not respond to a request for comment.

“Maintaining a building is a process and it could take a couple of years to truly understand the needs of the property and address all [deferred] maintenance needs,” said Santiago De Angulo, Aeon’s executive vice president of property operations, in a statement. “There are constantly new issues that we are learning about that requires us to redirect our efforts. We are prioritizing every health and safety issue that we identify or is brought to our attention. In addition, there are several capital improvement projects that are weather-dependent and may take a year or two to complete.”

Dominguez said she’s meeting with Aeon as the company asks for rent higher than the court order under the previous landlord. She hopes they find an agreement that works for everyone. Aeon staff told her they would order new blinds that work, and she’s hoping for a new fridge that doesn’t leak or spoil food. She likes the neighborhood. Her children can take the bus to school. The proposed \$850 rent seems too expensive for the one-bedroom apartment, she said, but her family can’t afford to move.

“Because we’ve been struggling, working together, we’re in a little better situation than others,” she said. “The hard part is that we have to put up with this, because our salaries are such that we can’t go to a better place.”