

## Newton RES LLC

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April 2, 2024

Senator Ann Rest  
Chair, Senate Taxes Committee  
328 Capitol  
St. Paul, MN 55155-1606

### **Re: Senate File 5194 – Credit for Conversion of Underutilized Buildings**

Senator Rest:

I write in strong support of Senate File 5194 – Credit for Conversion of Underutilized Buildings (“CUB”)

Newton RES LLC is a fee based developer in both the Twin Cities Metropolitan area and in various cities throughout greater Minnesota. We are hired by owners and developers to structure, finance and manage real estate transactions, primarily multifamily housing projects and projects repurposing existing buildings.

Two facts underscore much of the real estate market. First, Minnesota cities face a shortage of affordable rental and for-sale housing. NAIOP reports the lack of affordable housing is increasingly becoming a top concern for many America. According to the Pew Research Center, 63% of adults living in urban areas identify the availability of affordable housing as a major problem. Moody Analytics reports that the national rent-to-income ratio edged over the 30% rent-burden level for the first time in 2022.

Second remote work and hybrid workweeks has resulted in historically high office vacancy rates. Axios reports that the Twin Cities office vacancy rate of over 19% is one of the highest in the country. We have recently seen the flow of decreased valuations of commercial office properties, resulting in lower real estate collections, and lower economic activity for many local businesses and restaurants that rely on the foot traffic of office workers. Accordingly, sales tax revenue for local governments has also declined.

Our available tools to develop housing and repurpose buildings are hamstrung by higher interest rates and high construction costs. While rates may stabilize at some point, rising construction costs show few signs of abating.

The CUB credit is a smart idea that could have a significant and immediate impact on the ability of owners and developers to address these current real estate market issues. CUB uses a model that has proven effective in Minnesota. The Historic Structure Rehabilitation Tax Credit has dramatically spurred successful development of housing (both affordable and market rate) and the preservation of existing buildings. CUB could have much the same success.

There are numerous advantages to converting existing building for other uses. It saves money. It is environmentally positive. It preserves the fabric, texture and feeling of our communities.

At the same time, CUB can be an effective tool in addressing the need for additional housing, particularly affordable housing.

I urge the Taxes Committee and the Minnesota Senate support and pass Senate File 5194

Sincerely

*Michael S. Margulies*

Michael S. Margulies, for  
Newton RES LLC