

**Letter of Support – S.F. 0768
Catalyzing Underutilized Buildings Across Minnesota**

Tuesday, March 18, 2025

Chair Rest and members of the Senate Taxes Committee,

My name is Chad Tepley. I am a resident of Minneapolis, and I am a self-employed real estate developer with over 20 years of my career dedicated to repositioning or renovating all types of old and underutilized buildings in neighborhoods throughout the Midwest. In Minneapolis and around the state, we are facing significant challenges in real estate. Interest rates are more than double what they were three years ago, and construction costs have increased thirty percent (30%) in the same period. The Minneapolis/St. Paul market is within the top 10 worst housing shortage markets in the United States, and this situation has been further exaggerated due to these market conditions. Meanwhile, we are facing an increasing supply of vacant, outdated, and obsolete commercial buildings in neighborhoods and downtown markets, and one-quarter (1/4) of our office space is sitting vacant. If we do not address this imbalance immediately, we risk further blight throughout our cities, increased crime, and exponential future costs to our municipalities in dealing with problems arising from deteriorating buildings and neighborhoods.

The good news is that the CUB Credit offers a solution by incentivizing owners to renovate properties in need of repositioning and repairs in exchange for state income tax credits of 30% of qualifying costs. The program would be an immediate and powerful catalyst to local economies – construction labor, new business openings in renovated spaces, increased tax basis, increased sales taxes, more housing at all levels of affordability. The CUB Credit would bridge the gap of feasibility to promote building renovations and repositioning while providing a 10-to-1 ratio in State economic benefits to cost. This program is also unique because it would help individual owners and small businesses who currently have no pathway to financially feasible property improvements. As outlined in my case study below, the payback period on these types of projects could be as short as within 1 year.



I recently completed a restoration project in Northeast Minneapolis. 501 and 505 1st Avenue Northeast were two buildings that sat nearly entirely vacant for almost 10 years. The buildings were in total disrepair, bricks were falling onto the sidewalks below, and they were on the brink of needing to be demolished. In late 2023, I purchased the buildings and began renovations. Within 12 months I had completed a full gut renovation of every corner of each of the buildings and connected the properties with a new five-story addition, including a new elevator serving all floors including the basement. The property now features 50,000 square feet of renovated loft office space, retail storefronts, and basement gallery space. Below is a summary of the before and after results, which offer a clear picture of the benefits of restoring old buildings and re-energizing pockets of our city that have been left untouched for far too long. It is critical to note that this project was completed without assistance at the state or federal level, and I dealt with

considerable challenges in cost overruns and construction delays due to the extensive disrepair of the buildings. For most owners today, these obstacles are too great to consider moving forward with restorations. The CUB Credit would have been tremendously beneficial in helping to reduce these risks through the benefit of a tax credit.

Case Study - 501/505 1st Avenue NE, Minneapolis

BEFORE

AFTER



SIZE BEFORE CONSTRUCTION:

38,000 square feet

PREVIOUS USE:

Vacant warehouse; 2 retail shops

CHALLENGES:

Crumbling exterior walls
Failing structural beams
Fire hazards throughout
Leaking roofs, broken or missing windows

EMPLOYEES ON SITE:
(PRIOR TO CONSTRUCTION)

6

ANNUAL SALES TAX ON GOODS SOLD:
(BEFORE CONSTRUCTION)

\$40,000

ANNUAL STATE TAX:
(BEFORE CONSTRUCTION)

\$35,000

*ALL FIGURES ARE APPROXIMATE / ESTIMATES



SIZE AFTER CONSTRUCTION/ADDITION:

50,000 square feet

CURRENT USE:

6 retail shops; 7 office suites

SOLUTIONS:

Extensive masonry rebuilding/tuckpointing
All new windows/lintels, roof repairs
Concrete floors throughout
All new plumbing/mechanical/electric

EMPLOYEES ON SITE:
(AFTER CONSTRUCTION)

250

ANNUAL SALES TAX FROM NEW BUSINESSES:
(AFTER CONSTRUCTION)

\$400,000

ANNUAL STATE TAX FROM NEW BUSINESSES:
(ESTIMATED UPON FULL OCCUPANCY)

\$800,000

INCREASED TAX REVENUES:
(DOES NOT INCLUDE REAL ESTATE TAXES)

\$1,125,000

QUALIFYING CUB CREDIT CONSTRUCTION COSTS:

\$5,000,000

CUB CREDIT IF IT HAD APPLIED:

\$1,300,000

BENEFIT REPAYMENT TIMELINE:
(INCLUDING R.E. TAXES & ANCILLARY BENEFITS)

LESS THAN 1 YEAR

*ALL FIGURES ARE APPROXIMATE / ESTIMATES

In addition to the clear financial incentives for the State under the CUB Credit initiative, renovating and reusing old buildings offer the following additional benefits:

- Environmental sustainability – redevelopment of existing properties is the most environmentally sustainable form of development.
- Putting people to work – renovations of old buildings result in a far greater percentage of costs spent on local labor versus purchasing materials from out-of-state.
- Increased housing supply – converting commercial buildings to housing will help to offset our severe shortage of housing at all levels of affordability.
- Beautification of our cities and towns - aesthetic benefits to neighbors and nearby employees include new sidewalks, less trash, more pedestrian activity, safety and security, and especially the benefit of new neighborhood amenities like coffee shops, retail boutiques, and entertainment destinations.

The buildings where we live and work are crucial to the growth of our communities, and the economic challenges we face at the moment make it all the more critical that we do what we can to preserve them. I ask on behalf of property owners, residents, business owners, and tax payers—please support the CUB Credit and its swift approval.

Thank you for your time and consideration.

Regards,



Chad Tepley
Principal/Founder
CDT Realty