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TOP 100 Public Companies

Your first look at Minnesota's corporate lineup

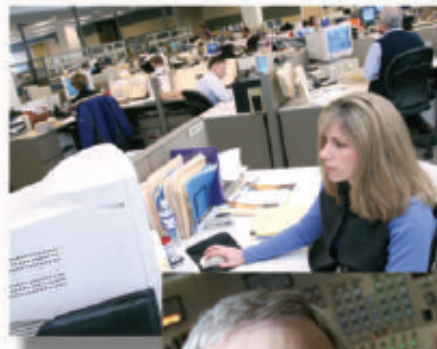
The *Minneapolis/St. Paul Business Journal's* exclusive 2006 research ranks who's up, who's down among the state's largest public companies.

Full coverage begins on page 15

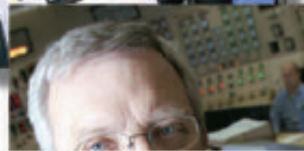
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C.H. Robinson climbs list with growing global presence | page 24

PICTURED: Darcy Pouti, International Sales



Q&A with Kelly, CEO



HOSPITALITY



PHOTO BY HEMPEL PROPERTIES

Midland project includes 200 hotel rooms, condo tower.

\$100M conversion proposed

BY SAM BLACK
STAFF WRITER

Hempel Properties and Morrissey Hospitality are teaming up on a \$100 million condo and hotel development in downtown Minneapolis.

The partners plan to develop a 200-room hotel and restaurant in the existing 10-story, century-old Midland Bank Building on Second Avenue South. They will build a new 35-story tower next door with 135 condos atop a 13-story parking ramp. Dubbed the 401 Hotel and

PHOTO BY HEMPEL PROPERTIES

MIDLAND: \$100 million project lengthens list of office-building conversions to hotels in Minneapolis

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Residences, the property will not be affiliated with a major flag such as Radisson or Hilton, although it will compete with those brands as well as a slew of boutique hotels that are in development stages in the city.

Morrissey Hospitality Cos., which operates The Saint Paul Hotel, will manage and own a stake in the project. Morrissey also will design and operate the 200-seat casual, yet upscale, restaurant and bar in the former bank lobby.

Hempel and Morrissey plan to submit development plans to the city for approval in the next three weeks. They hope to break ground sometime this summer and open in stages over the next 12 to 18 months.

The project is a half-block away from a light rail stop in front of Minneapolis City Hall. The condos will be geared to the upper end of the market, with views of downtown Minneapolis or the Mississippi River.

Richfield-based Tushie Montgomery Architects is designing the project. Hempel hasn't determined who will finance or build the project or market the condos.

Hempel's project team includes Sara Malin, development manager, and Joshua Krsnak, vice president.

The partners have contracted to buy the Midland building from Adrian Johnson, president of Minneapolis-based Points West Realty.

Hempel thought the site would work for a condo and hotel combination project, but since he had no experience as a hotel operator, he sought an experienced partner.

Bill Morrissey, president of Morrissey Hospitality, said he's selective with his joint ventures but was impressed with the Midland's building's location and "bones," and he liked Hempel's plans to develop and hold onto the property.

"We're all in it for the long term. We're going to make it work," Morrissey said.



Jon Hempel is partnering with Bill Morrissey to redevelop the Midland Bank Building (center background) into a 200-room hotel with an adjoining condo tower. The former bank lobby will become an upscale restaurant.

New partnership

This is the first hotel and the largest project to date for Hempel Properties. The 12-employee firm, started six years ago by President Jon Hempel, 35, is developing a 120-unit condo project in St. Paul called River Park Lofts.

The company also developed and owns office space in Maple Grove and Elk River. It's redeveloping a Cub Foods-anchored shopping center in Plymouth.

Altogether, Hempel's portfolio stands at about 700,000 square feet. Within two years, Hempel hopes to expand that to 2 million square feet.

Morrissey's company, based in St. Paul, has 1,100 employees and several projects around the Midwest. In addition to hotel and catering operations, Morrissey operates well-known restaurants such as The St. Paul Grill, Pazzaluna Urban Italian Restaurant & Bar in St. Paul and

Tria Restaurant Bar and Market in North Oaks.

Morrissey is involved in developing more than \$250 million in real estate deals, including projects in Chicago, Iowa and Duluth.

Hempel and Morrissey said they hope to extend their partnership to other properties and new development projects in the Midwest.

Hotel conversion trend

The 401 Hotel would be geared to business and leisure travelers. Its proximity to city, county and federal government offices provides a marketing opportunity, Morrissey said.

Room rates aren't set yet, but Morrissey said they'll probably end up about 10 to 15 percent cheaper than whatever Westin charges in the 214-room conversion project announced for the former F&M Bank building on Marquette and Sixth avenues.

With the downtown office market still a year

or two from full recovery, and the condo market starting to cool, hotels seem to be the next big thing, said Benjamin Graves, president of Graves Hotels Resorts in Minneapolis, which operates the Graves 601 Hotel in Block E.

"We've seen a pretty significant rate lift here in Minneapolis, and that's justifying some of these new projects," Graves said.

Building owners pursuing hotels are getting competitive financing offers from banks and interest from investors, Graves said. "It seems that every building that's vacant right now is talking hotel. To me it's a little disconcerting. The market could take a dip."

Steve Sherf, senior vice president of GVA Marquette Advisors in Minneapolis, said developers are aware that the downtown hotel market is at its strongest point in five years.

The average occupancy rate there at the end of 2005 was 71 percent and average room rates of \$115 per night are up 6 percent from 2004, Sherf said.

Conversions underway include the 136-room and 86-condo project called the Ivy Tower + Residences by developers Jeff Laux, Gary Benson and Starwood Hotels and Resorts Worldwide Inc.; and the Chambers Hotel, which Ralph Burnet is converting into a 53-room upscale boutique hotel.

Other buildings mentioned as candidates for hotels include the Foshay Tower, the Renaissance Square building, and 501 Marquette, formerly known as the Soo Line Building.

Graves said the cost for building new hotels starts at about \$200,000 per room key, which translates into about a \$200 per night rate based on an industry rule of thumb.

When the Radisson Plaza Hotel Minneapolis is advertising \$79 per night specials on the weekend, he said, "it becomes very hard to justify new construction."

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