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Startup aims to cut apartment, hotel building costs with \$20M Minnesota modular-construction factory

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Modular commercial construction – the building of apartments and hotels inside of factories – has become a hit on the coasts, but so far Twin Cities contractors have mostly stuck with traditional techniques.

That's despite the fact that many boosters of modular construction believe it can combat rising construction costs and labor shortages while delivering more affordable housing at a time when it's greatly needed.

The state's biggest general contractor, M.A. Mortenson Co., built a seven-story CitizenM Hotel in Seattle using hotel rooms that were built inside of a plant, shipped and then stacked at the construction site. But Mortenson and other big players haven't done such projects here.

One reason is a lack of companies with nearby plants that have the capacity to build large-scale apartments and hotels using modular, said Christian Lawrence, the founder of a new company that aims to change that.

His Minneapolis-based company, Rise Modular, has a purchase agreement in place to buy a 150,000-square-foot Owatonna plant and could eventually expand the building to 500,000 square feet. It's also hired Jason Jendrysik to run the plant. He is the former vice president of operations of Dynamic Homes, the Detroit Lakes-based modular-construction company that is known mostly for its single-family homes, but has done plenty of commercial work.

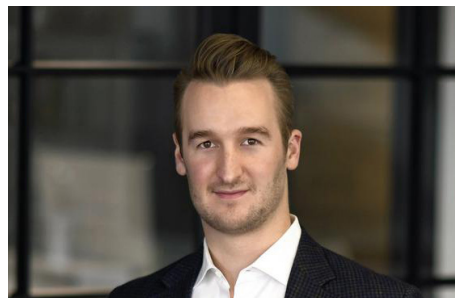
Lawrence is the son of James Lawrence, who was chief financial officer of General Mills Inc. from 1998 to 2007 and, prior to that, chief financial officer of Northwest Airlines. The Owatonna project will cost roughly \$20 million with funding from the family's investment firm, Lake Harriet Capital, but James Lawrence is not involved with running Rise Modular.

Christian Lawrence founded the company because he was trying to develop 200 apartments in St. Michael using modular construction, but couldn't find a company with the capacity to handle such a job. There are large-scale commercial modular plants in other parts of the country – the nearest is in Boise, Idaho, but it costs \$5 to \$10 per pod per mile to truck the units. So shipping a 200-unit building in pieces from Idaho would cost \$1.5 million to \$3 million.

Lawrence decided he would open his own plant instead.



Rise Modular has this 150,000-square-foot plant in Owatonna under contract.



Christian Lawrence is the founder and CEO of Rise Modular, a Minneapolis startup that will build entire apartment buildings and hotels in an Owatonna warehouse.

The Owatonna facility will have capacity to build 1,000 apartments or 1 million square feet of space annually, he said. Rise is working on several development sites, and it will be the first to use its own product.

"We will do our own project first," he said. "We are willing to take the risk to build it using this technology and to show our capabilities."

Lots of interest in modular

Mortenson executive Nate Jenkins, who is based in Seattle, presented on his company's modular projects at the Minnesota chapter of the Urban Land Institute at a recent forum in St. Paul. There was a packed house of developers, architects and builders, all interested in the trend.

"The reason people are exploring this is that material and labor costs continue to rise," Lawrence said.

The Seattle hotel project, which has 264 rooms, actually cost \$1.1 million more to build than if it had

been done using traditional construction, Jenkins said. But since the project took 13 months instead of 17 months, the hotel was able to collect an additional \$6.4 million in room rentals for a net benefit of \$5.32 million.

Lawrence anticipates that Rise will be able to build apartments or hotels for 5 to 10 percent less than the cost of traditional construction; when factoring in time savings, that number could jump to 20 percent.

There are other advantages. Workers can wear T-shirts in a factory year-round. They don't have to move or drive long distances to a construction site for months at a time. And the factories are safer because workers aren't several floors in the air, walking on slick or icy surfaces, Jenkins said.

Modular construction isn't necessarily new to the region. Dynamic Homes has been doing it for 50 years, said President Paul Okeson. Dynamic has built Best Westerns, Holiday Inns and multifamily projects all across northern Minnesota and North Dakota, plus single-family homes that have reached the Twin Cities.

The company was supposed to build modular units for a 44-apartment Thor Cos. project in South Minneapolis, but then Thor fell into financial trouble and the project stalled, though it could be salvaged.

Dynamic has a 120,000-square-foot plant in Detroit Lakes and also builds for Minnesota tribal communities. Another company, Stratford Homes of central Wisconsin, also does commercial work in addition to its single-family homes.

Lawrence said he plans to have the Owatonna plant up and running by the end of the year. At full capacity, the plant would employ 80 with another 20 administrative employees mostly based in Minneapolis.