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River Valley Church at peace in suburban office park

By Burl Gilyard, F & C Real Estate Writer
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In the beginning, there was an office/warehouse building in Apple Valley. Tenants came, and saw that it was good. From the outset, the largest tenant in the Valley Business Center has been an unlikely office/warehouse user: River Valley Church, a fast-growing contemporary congregation.

"When I saw the building being constructed, I drove up and said, 'What's being built here?' We pursued it from day one to try to get into the building," said Pastor Rob Ketterling, who founded River Valley Church in 1995.

"It's right on the crossroads of County Road 42 and Pilot Knob [Road]. It has high visibility. It borders residential," Ketterling said. "It's real close to where you'd put a church anyway. It just happens to be a business park."

Valley Business Center opened in 2000 with River Valley Church as one of eight tenants in the building.

In May, River Valley Church made the transition from tenant to landlord when it bought

the 62,000-square-foot building for \$4.8 million. The deal involved buying out the original developer and tenants-in-common (TIC) investors who had invested in the project.

Faced with the options of finding new space or buying the existing building, Ketterling said the choice became clear.

"It gave us flexibility," Ketterling said. "We just thought, 'This is a known quantity on a high visibility corner. This is the right call.'"

Michael Houge, principal with Minneapolis-based Upland Real Estate Group, was involved in the project at every conceivable juncture. At the start, Upland leased up the building to tenants, including River Valley Church, Wal-Mart and the Saint Paul Pioneer Press.

In 2003, Houge's firm - partnered with the Minneapolis-based Geneva Organization - bought 60 percent of the project to syndicate to TIC investors, while retaining a small ownership stake themselves. Eagan-based Interstate Partners LLC, the property's developer, retained a 40 percent interest at the time of the deal, which valued the property at \$4.75 million.

The project marked the first TIC deal for Houge, who's become known locally for promoting TIC investments. Earlier this year, Houge brokered the buyout.

"For Upland, it's as cradle to grave as you can get," Houge said.

Faced with the prospect of losing the largest tenant in the building, Houge said it made sense to sell the project to River Valley Church, even though that meant a fairly short holding period for the TIC investors.

"The biggest risk factor we had was whether or not the church would stay when their lease came up," Houge said. "No one was thinking that we'd be selling the building a couple of years into the TIC."

Houge said the space would have been tricky to reposition for another tenant: "It wasn't easily convertible."

Houge acknowledged that some of the TIC investors were wary of selling so soon, but given the risks of losing a large tenant, it seemed like the best move.

"It was thin - it wasn't as much of a profit as we would have hoped, but it happened faster than we thought," Houge said. "I think we came out ahead, but not significantly."

"I think it was a win-win deal all the way around," said Greg Miller, president of Interstate Partners. "We achieved a good price for the property. The church is just a great group, and it's good to see them in there. The property's been full since we built it."

The church started with about 20,000 square feet of space in the building, but has since expanded to 26,000 square feet - about 42 percent of the building. The portion used by the church now comes off the tax rolls.

"When you walk in the door, it looks like a very nice, contemporary church," said Ketterling, who compares the worship space with "a nice theater."

Ketterling said the church draws about 1,000 people every weekend.

"It's a young, contemporary church. I did a sermon once on NASCAR, and I talked about how to avoid the big crash in life," Ketterling said. "We do creative stuff like that."

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