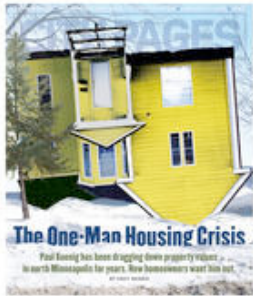


Paul Koenig: The One-Man Housing Crisis

He's been dragging down property values for years, and neighbors want him out

By Andy Mannix
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Ella Schreck



1612 25th Ave N: All made out of ticky-tacky and they all look just the same

Ella Schreck



3550 Queen Ave N: One of several houses now owned by the bank

Ella Schreck



Derek Lowe worked for Paul Koenig but was left out in the cold

On the 1500 block of Hillside Avenue in north Minneapolis, a brown and white handrail leads to a vinyl-sided beige duplex a mere few hundred feet from Minneapolis City Councilman Don Samuels's house.

Inside, a bowing chimney has split a crack in the drywall beginning at the floor and disappearing into the upper unit. An occasional mouse scurries through a breezy two-inch gap under a door leading to the deck.

Next door and across the street, neighbors lament the years of problems they've had with the property and its renters. Two summers ago, a second-story tenant thought an open window would be more convenient than a trashcan—Amy Haddy, a next-door neighbor, recalls vividly the steaming pile of dirty diapers that accumulated on the front lawn.

But nuisance tenants are only a minor problem for Haddy compared to what she and other neighbors fear will be the long-term damage to the block: "It's bringing our property value down," says Haddy.

The man who Haddy says is responsible for their declining property values is Paul Koenig, a notorious Twin Cities landlord with a slick, hairless cranium and a beefy build. Koenig owned the house until a few months ago, when he lost it—as well as two other houses just a few doors down—to the bank.

In 15 years, Koenig and his companies have owned more than 120 properties, many in north Minneapolis. More than 40 of those are presently in various stages of foreclosure, according to city records.

Koenig is best known for his part in the crumbled empire of cheap, factory-built homes known by those who lived through it as "the Dream Home fiasco."

Details:

GOOGLE MAP:

[Koenig's Properties](#)

Koenig says his rental properties have served a need in north Minneapolis, but residents don't see it that way. Now they want him out.

Councilmember Samuels says Koenig's lost properties tell a familiar tale of failure and blight that drags down the already depressed value of homes across the North Side.

"If he did anything illegal he will be dealt with, you can be assured of that," says Samuels. "But the way things are going, it's possible to be totally unethical and not be illegal. It's incalculable, the damage this does."

CAROL PASS, a small woman with bulky gold-framed glasses, sat in the Holy Rosary Church on a February evening in 2001 for the East Phillips Improvement Coalition's monthly meeting. It was nearly 9 p.m., and the last item on the agenda was to address problem properties in the neighborhood, of which there was only one: 2427 Bloomington Ave. S.

"Premises are dirty, substandard and tenant behavior is dangerous," the meeting minutes read. "Very young children wandering outside, doors hanging open, loud people coming and going all night. Fights. Bare dirt yard."

Nearly a decade later, Pass remembers vividly the rundown property and the man who managed it: an up-and-coming young landlord named Paul Koenig

"It looked like a back alley of Port-au-Prince," says Pass. "Everything was dirty looking and grimy and shabby."

City records show the property was actually owned by Michelle Milbrandt, now Koenig's wife and business partner, but the rental license was registered under Koenig's name.

After it was marked as a blighted property by the neighborhood, complaints came pouring in. Koenig made a show of being concerned, remembers Pass, but the condition of the house, and its problem tenants, only grew worse.

Mark Welna, the owner of a hardware store across the street, also remembers it as a neighborhood eyesore.

"It was rundown, inside and out," says Welna. "They tried to get by on a shoestring."

Later that year, the city took control of the property and tore it down. A spacious garden owned by a nearby alternative school now stares across Bloomington Avenue at Welna's shop, a welcome improvement to the block's aesthetic.

"After he was done owning it, it was an empty lot," says Welna, a man wearing a carefully trimmed white goatee and a checkered flannel shirt. "That speaks volumes to me."

Around the same time, Koenig filed for bankruptcy. While neighbors were urging him to rejuvenate the shabby Phillips property he managed, Koenig had apparently been losing money to one of his favorite hobbies: \$1,700 in dishonored checks was owed to Mystic Lake Casino.

Months later, Koenig and a business partner broke ground on what seemed sure to be his most lucrative business venture yet—a company called Dream Home Development.

DREAM HOME'S business model seemed like a nightmare to the neighbors who got a peek at the floor plans. The properties each had six dorm-sized bedrooms and cheap yellow vinyl siding. The original models didn't have basements or garages. The houses were built in factories, transported in sections, and assembled in days—"From dirt to tenant in three weeks," as Koenig's partner Dave Kohlenberger told the *Star Tribune* in 2002.

"They were using materials that were just this side of legal," says Jonathon Palmer, then the Jordan Area Community Council director. "I mean, it was like the baseline of what you could get away with and still call something a house."

The plan was to build 350 of the so-called Dream Homes, many in north Minneapolis. From the get-go, residents and neighborhood associations protested the wave of pre-fab houses.

Koenig defends Dream Home. A few complaints aside, he says, city leaders warmly greeted the influx of mass rental homes.

"There were four City Council members that went through the house and all of them expressed that the house looked great and was exactly what the city was interested in," Koenig says.

Councilmember Samuels was one of them, but he remembers it differently.

"I thought it was so shoddy," says Samuels. "I remember the finish was pretty crude. It didn't seem like the materials would hold up."

In 2004, the City Council passed a moratorium on building in north Minneapolis, putting a permanent halt to Dream Home's expansion. In 2005, after building only about 70 of the proposed 350 properties, the company went belly up. It filed for bankruptcy the next year.

After the collapse, disgruntled investors and subcontractors turned on Dream Home. Among them were Stephen Kranz and Donal Parks.

The East Coast investors told the Minnesota Supreme Court that an Edina Real Estate Agent approached them on behalf of Dream Home. In court, the investors accused Dream Home of duping them into buying six properties by promising a fortune in guaranteed cash flow from Section 8 vouchers and nonprofit funds allocated to low-income renters.

By this time, Koenig had already split from the company over what he calls a "dispute with the other owners," so his former partner, Kohlenberger, signed a confession of judgment on behalf of Dream Home and its sister companies.

When Koenig left the company, Kohlenberger agreed to buy out his interest in Dream Home. Koenig sued his former business partner in 2005 for failing to make the buyout payments on time, according to court records. Shortly after, Kohlenberger transferred all of the unsold properties to Koenig.

Koenig sold off most of the Dream Home properties, but held onto a few to help build his new empire—a company called Pamiko Properties LLC.

Five years after Dream Home folded, residents say their early fears about the company have been realized. Since the bankruptcy, more than 20 Dream Home properties have been vacant or boarded. Others have been demolished by the city.

Neighbors of the remaining properties say they're bringing down the value of the entire neighborhood.

"We're still stuck here with these six-bedroom homes that really aren't attractive," says Bev Scherrer, housing committee chair for the Hawthorne Neighborhood Council. "Only time will tell how long they'll last. We're just slowly eroding here."

JEFF SKRENES SAT in his cluttered office in the Hawthorne Neighborhood Council headquarters sifting through the usual mundane lists of nearby addresses when he stumbled on a record for a north Minneapolis house that had recently been bought at a foreclosure auction for \$2.5 million.

This seemed more than a little odd to Skrenes. As the neighborhood's housing director, he spends a big part of his day monitoring nearby properties, and he rarely sees one graze six figures at auction, let alone break the \$2 million mark.

So Skrenes did some digging. The more he looked at it, the stranger it appeared.

"This is like the *Alice in Wonderland* of mortgage," says Skrenes. "This gets so convoluted ...and I get this shit!"

Skrenes discovered that a company called Pamiko Property LLC had taken out at least three multimillion-dollar lines of credit from Minnwest Bank. Owned by a married couple named Paul and Michelle Koenig, Pamiko put up scores of largely north Minneapolis properties on each loan as collateral. Then Pamiko began losing some of the properties to banks—a combined total of more than 40 properties.

When Minnwest Bank bid \$2.5 million at the auction, they were actually buying several dozen properties that they already had a stake in.

This only left Skrenes with more questions. Why would a bank loan someone millions to invest in cheap north Minneapolis properties? And if Pamiko lost all the properties to the bank, where did the money go?

As Skrenes continued to pore over the mortgage records, something else struck him. Several of the same addresses appeared as collateral on different lines of credit.

Skrenes, a former mortgage originator for U.S. Bank, says he's never seen anything like it.

"It's a foolish lending decision," he says. "Foolish at best. Maybe worse."

Skrenes posted his findings on the "Adventures of Johnny Northside" blog and the Minneapolis issues section of "EDemocracy.org."

Almost immediately, residents from all over the city rallied in the comments sections of the blog posts, leaving horror tales about Koenig's reign as a landlord and lists of properties he has owned.

Then the digital mob turned on the Koenigs, leaving comments on a personal blog they maintained. One told the Koenigs they were going to hell for pillaging their neighborhood. Another made an ominous reference to knowing where the family went to church.

The Koenigs quickly deleted all the comments and made the blog private.

In late January, Skrenes and other neighborhood council members landed a meeting with city and county officials to discuss their beef with Koenig. City Councilmember Diane Hofstede and lawyers from the Hennepin County Attorney's Office were in attendance as the north Minneapolis residents made their case for an investigation into Koenig's business and banking practices.

Koenig guesses that the catalyst behind complaints against him is a prejudice against rental property owners. "I think there's a strong bias in the city against renter properties," he says. "Not everyone can be a homeowner."

Koenig vehemently denies that his business on Minneapolis's North Side has left any scars. In fact, he claims just the opposite.

"We ended up identifying a need in the city where there's an enormous amount of families and children that need this type of housing," says Koenig. "So it looks like there's a win-win for everybody."

IN 2007, Derek Lowe cruised the Jordan neighborhood in north Minneapolis looking for a place to rent. He spotted a duplex on Hillside Avenue under construction and pulled over to chat up the contractors.

They worked for a new company called Pamiko, they told Lowe, and were looking for tenants. Soon after, Lowe moved into 1547 Hillside Ave., the problem property next door to the Haddys.

A few months later he got word that the company's owner, Paul Koenig, was looking for maintenance workers. Lowe put in an application and got the job.

At first, it seemed like a good gig, and the long-term answer to Lowe's employment problems.

"I figured, it's a brand new company. They're renovating all these houses. They're going to be around for a long time," says Lowe.

But before long, Lowe began to see ominous warning signs that his future employment might not be so secure. When he started, he was part of a whole team of maintenance workers. Then one day, it was just him.

In March 2008, Koenig lost a house to the bank. Lowe didn't think much of it until months later when Koenig started losing more houses.

In early September 2009, Lowe says, he was in the middle of a workday when he received a call from Koenig informing him that the company was losing most of its properties and no longer needed him, effective immediately.

"I was like, 'What? It's over today?'" remembers Lowe, whose girlfriend is expecting a baby. "I'm still trying to crawl out of the hole he left me in."

Things have been rough since Lowe lost his job. He's not eligible to receive unemployment, he says, because despite working 40 hours a week, Koenig employed him as an independent contractor.

In mid-January, Lowe received a letter from Drake Bank telling him that his house on Hillside will soon be up for sale at a foreclosure auction. He fears it's only a matter of a couple of months before he won't have a place to live.

Lowe's last contact with Koenig was in early January when received his W-2 tax form in the mail. The envelope was postmarked, "Orlando, Florida."