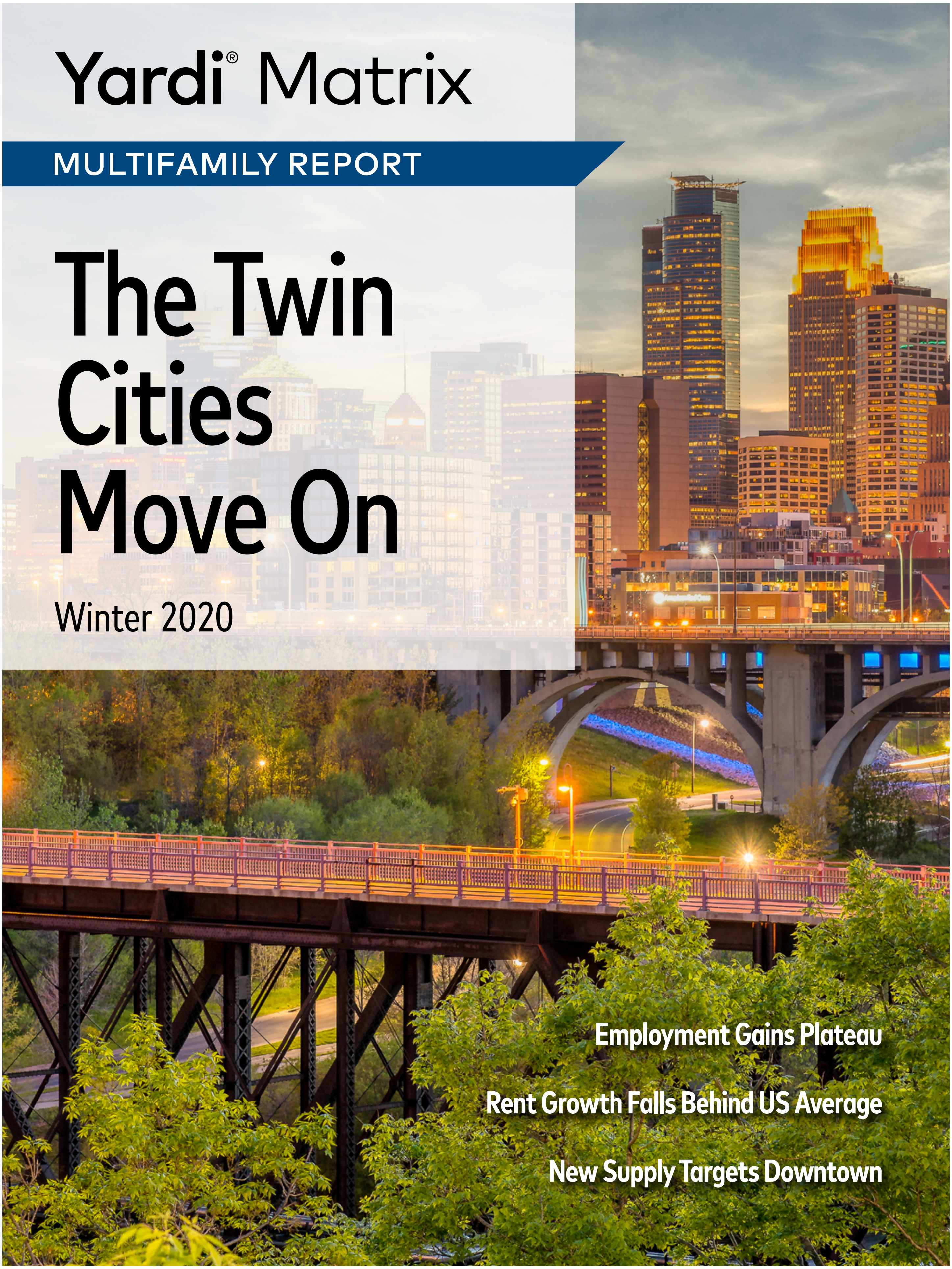
Yardi® Matrix

MULTIFAMILY REPORT

The Twin Cities Move On

Winter 2020



Employment Gains Plateau

Rent Growth Falls Behind US Average

New Supply Targets Downtown

TWIN CITIES MULTIFAMILY

Yardi® Matrix

Healthy Demographics Sustain Demand

In the face of a slowdown in employment, the Twin Cities' multifamily market has remained stable, fueled by above-trend population growth and demand. Despite losing some traction, the average occupancy rate of 96.5% as of December was the highest among Midwestern metros. Rent expansion also decelerated, with rates dipping below national averages for the first time since August 2016.

Employment growth stagnated in the 12 months ending in November, with significant losses in education and health services (-9,900 jobs) counteracted by gains in leisure and hospitality (5,500 jobs). Due to the metro's increasing number of visitors, hotel owners and developers have embarked on a slew of modernization and construction projects. St. Paul is undergoing a significant makeover; the city launched its new $250 million Allianz Field soccer stadium last year; and work on the $1 billion redevelopment of the old Ford assembly plant is set to begin this spring. Ryan Cos. is overseeing the billion-dollar mixed-use development, which is expected to create more than 13,000 construction jobs.

Multifamily transaction volume crossed the $1 billion mark for the fourth consecutive year in 2019. Urban core submarkets continued to attract both investors and developers. With more than 2,000 units underway, Minneapolis–Central is still leading development. We expect rent growth to come in at 3.1% in 2020.

Market Analysis | Winter 2020

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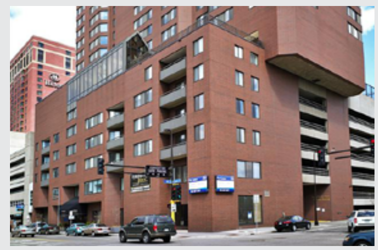
Recent Twin Cities Transactions

The Loden

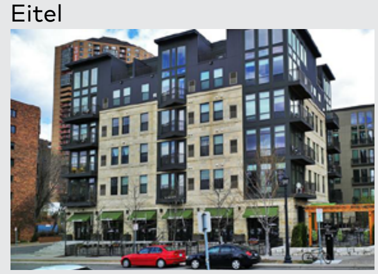
City: Edina, Minn.
Buyer: Eaton Vance Investment Managers
Purchase Price: $69 MM
Price per Unit: $279,163

Bolero Flats



City: Minneapolis
Buyer: Investment Property Group
Purchase Price: $59 MM
Price per Unit: $226,209

Eitel



City: Minneapolis
Buyer: Sentinel Real Estate
Purchase Price: $55 MM
Price per Unit: $256,338

Avana on Seven

City: St. Louis Park, Minn.
Buyer: Goodman Real Estate
Purchase Price: $37 MM
Price per Unit: $218,563

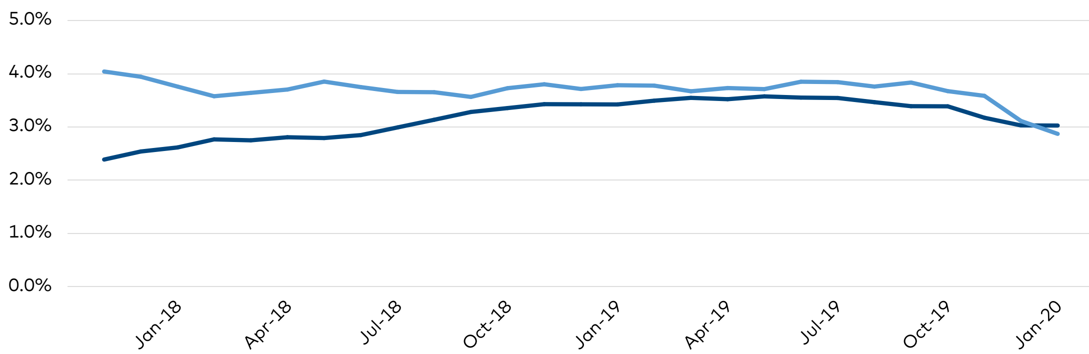
RENT TRENDS

- The average rent in the Twin Cities was up 2.9% year-over-year, marking the first time growth dipped below the 3.0% mark since August 2015, and also the first time it contracted below the national average since August 2016. At $1,326, the average Minneapolis-St. Paul rent trailed the $1,463 national figure, but was second only to Chicago ($1,524), among Midwestern metros.

- Rents in the upscale Lifestyle segment led growth, up 3.3% to $1,700. Working-class Renter-by-Necessity rents rose by 2.8% to $1,132. Demand across asset classes is driven by two large demographic groups: Millennials and Baby Boomers. With population gains above national averages and affordability among the metro's key advantages, the occupancy rate in stabilized upscale properties is expected to remain well above the national average.

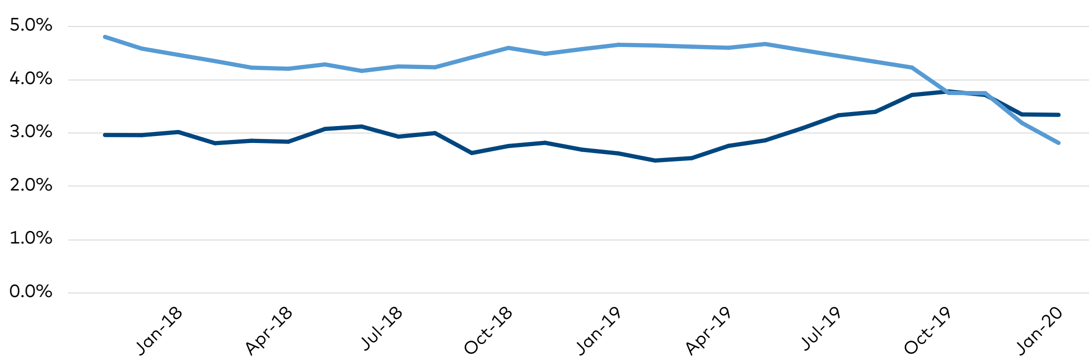
- Urban submarkets in the Twin Cities remained the most expensive, with St. Paul–St. Anthony ($1,912) leading the way, followed by St. Paul–West Seventh ($1,813). Maple Grove ($1,776) was the most expensive suburban submarket as of January. However, rents grew the most significantly in submarkets located in the northern part of the metro—Mounds View (10.8%) and Brooklyn Park (9.5%). We expect rent growth in Minneapolis-St. Paul to slightly pick up and reach 3.1% in 2020.

Twin Cities vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

Twin Cities Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

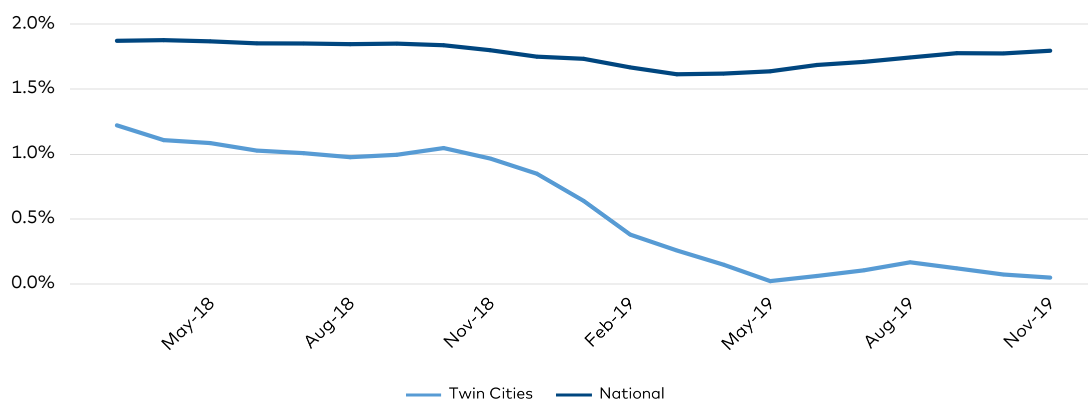
ECONOMIC SNAPSHOT

- In the 12 months ending in November, Minneapolis-St. Paul lost 5,200 jobs. Employment growth plateaued due to significant losses in education and health services and professional and business services (-13,200 positions combined). Large employers including Comcast, Wells Fargo and HealthPartners announced layoffs.

- Part of the deficit was offset by gains in leisure and hospitality, which gained 5,500 jobs. The number of foreign travelers passing through the metro's international airport rose by 9% in 2019, according to the Metropolitan Airports Commission. Several hotels are underway or undergoing renovations: The 585-key Marriott City Center is in the middle of a multimillion-dollar revamp and United Properties broke ground on the $433 million RBC Gateway tower that is set to include 222 keys. Downtown St. Paul is also likely to see significant transformation. Six developers have pitched projects surpassing $200 million—including hotels, apartments and office space—for a 3.4-acre site within an Opportunity Zone.

- To accommodate growing infrastructure needs, the Southwest Light Rail Transit project is under construction. Furthermore, the Metropolitan Council is moving forward with its $1.5 billion Bottineau Blue Line light rail that will connect downtown Minneapolis to Brooklyn Park.

Twin Cities vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, Bureau of Labor Statistics (not seasonally adjusted)

Twin Cities Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
70	Leisure and Hospitality	198	9.3%	5,500	2.9%
55	Financial Activities	157	7.4%	1,800	1.2%
80	Other Services	83	3.9%	1,100	1.3%
90	Government	271	12.7%	800	0.3%
15	Mining, Logging and Construction	92	4.3%	100	0.1%
30	Manufacturing	215	10.1%	100	0.0%
40	Trade, Transportation and Utilities	393	18.4%	-600	-0.2%
50	Information	38	1.8%	-800	-2.1%
60	Professional and Business Services	334	15.7%	-3,300	-1.0%
65	Education and Health Services	352	16.5%	-9,900	-2.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

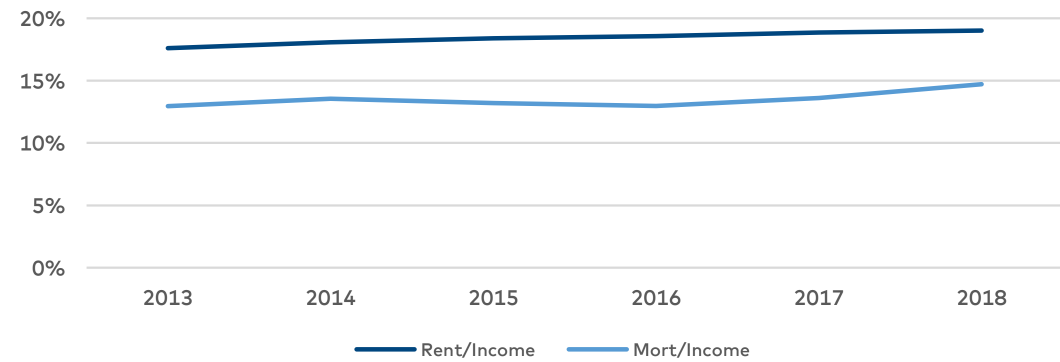
DEMOGRAPHICS

Affordability

- The median home price in Minneapolis-St. Paul peaked at $242,389 in 2018, up 42% since 2011—the cycle's low point. Renting continued to be more expensive than owning, with the average rent accounting for 19% of the area median income, while the average mortgage payment equated to 15%.

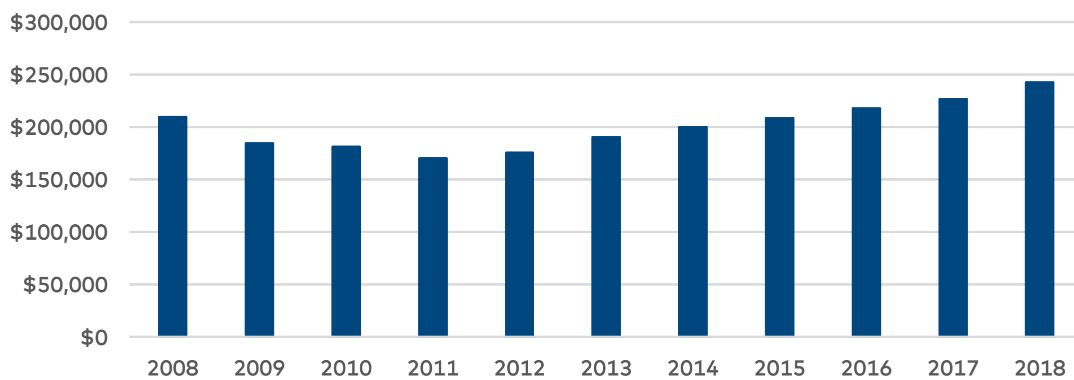
- In January, the city council enacted an inclusionary zoning policy that requires developers to set aside specific numbers of affordable housing units and create mixed-income communities. The requirement is part of Minneapolis 2040—a comprehensive plan for denser development that also stipulates the elimination of single-family zoning.

Twin Cities Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Twin Cities Median Home Price



Source: Moody's Analytics

Population

- The Twin Cities gained 36,521 residents in 2018, a 1.0% uptick and 40 basis points above the national rate.

- Between 2010 and 2018, the metro expanded by almost 274,000 residents. Demographic expansion has been mainly fueled by natural population growth.

Twin Cities vs. National Population

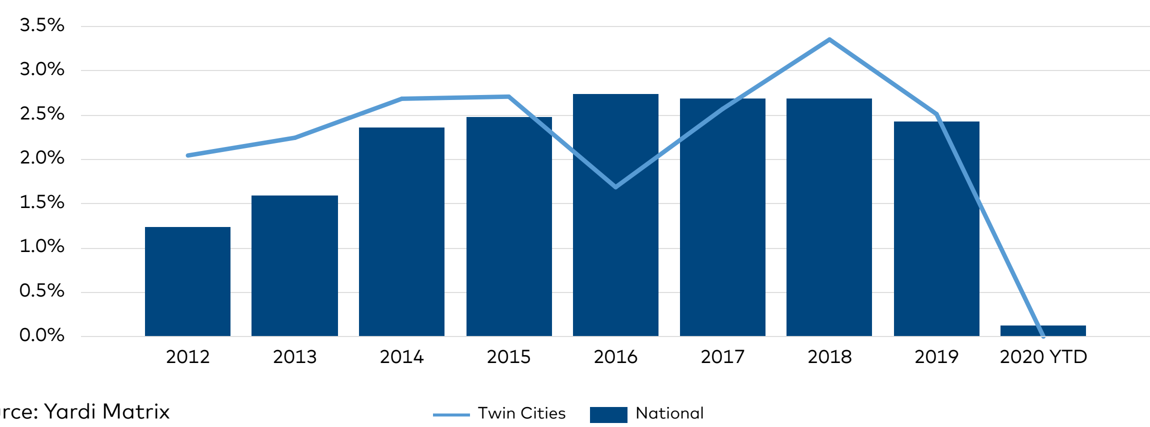
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Twin Cities	3,519,501	3,554,690	3,592,669	3,629,190

Sources: U.S. Census, Moody's Analytics

SUPPLY

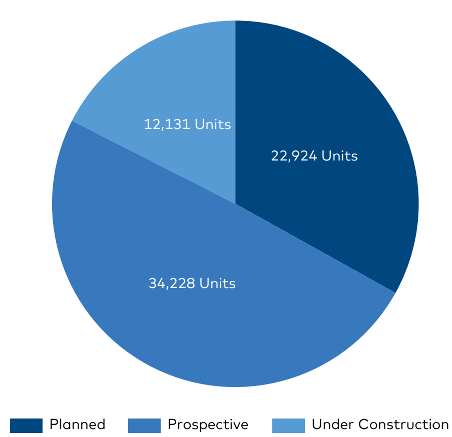
- Minneapolis-St. Paul had 12,131 units underway as of January, with approximately three-quarters of those geared toward high-income residents. Minneapolis–Central (2,179 units underway) continues to dominate the development pipeline, followed by Minneapolis–Calhoun Isle (900 units). Developers are also looking to capitalize on the investment side, as these two submarkets also lead in transaction volume.
- According to Housing First Minnesota, the metro's homebuilders association, Twin Cities home construction rose by 10% in January 2020 compared to January 2019. The same report found that single-family construction was also up by 3% during the same period.
- Since 2012, more than 38,000 units have come online in the Twin Cities. A total of 5,266 apartments were delivered in 2019, representing 2.5% of total stock, and 10 basis points above the national average. The metro also had approximately 57,000 units in the planning and permitting stages, a sign that developers are confident in the area's potential.
- At 96.5% as of December, the occupancy rate in stabilized properties across Minneapolis-St. Paul remained significantly above the 94.8% national average, despite decreasing by 30 basis points year-over-year.

Twin Cities vs. National Completions as a Percentage of Total Stock (as of January 2020)



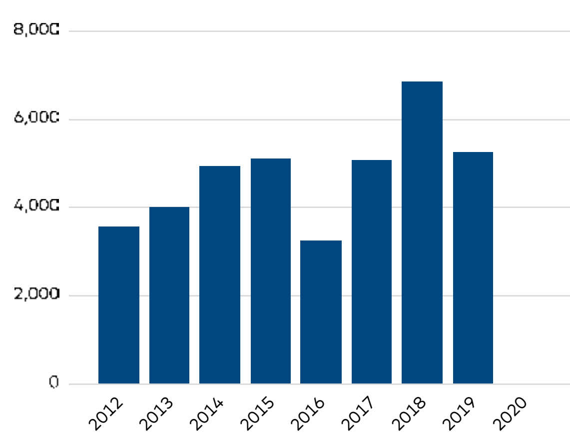
Source: Yardi Matrix

Development Pipeline (as of January 2020)



Source: Yardi Matrix

Twin Cities Completions (as of January 2020)

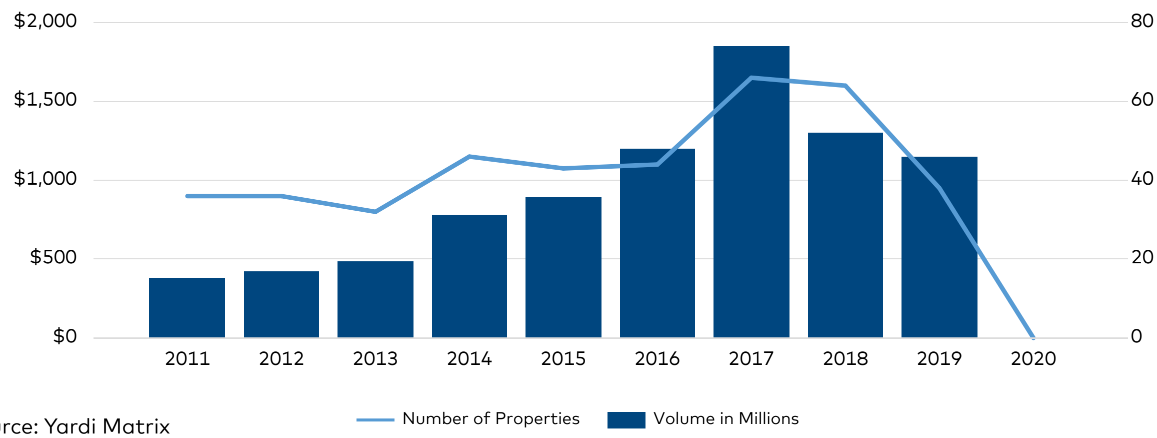


Source: Yardi Matrix

TRANSACTIONS

- For the fourth consecutive year, multifamily investment sales volume in the Twin Cities surpassed the $1 billion mark, though still well below the 2017 cycle high. Last year's average price per unit was $172,588, above the $168,177 national average, but below 2017's record of $189,010.
- In the 12 months ending in January, urban core submarkets such as Minneapolis–Central ($206 million) and Minneapolis–Calhoun Isle ($96 million) were the most coveted. Suburban areas also attracted a total of $413 million.
- The metro's largest transaction year-over-year through January was The Connor Group's $108 million acquisition of the 453-unit City Walk at Woodbury. Other buyers were active as well—Nuveen Real Estate paid $106 million for two assets totaling 400 units.

Twin Cities Sales Volume and Number of Properties Sold (as of January 2020)



Source: Yardi Matrix

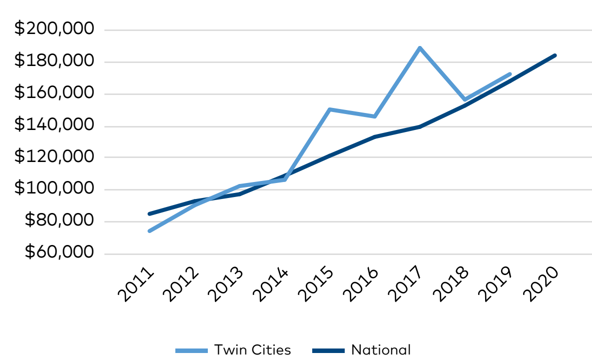
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minneapolis–Central	206
Woodbury/Cottage Grove	203
Minneapolis–Calhoun Isle	96
St. Paul–Como	81
Edina/Eden Prairie	69
Burnsville	54
Minneapolis–University	53

Source: Yardi Matrix

[1] From February 2019 to January 2020

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

Q&A: Solving the Capital Challenge for Affordable Housing

By Laura Calugar

To analyze the Twin Cities' main affordable housing issues, *Multi-Housing News* reached out to a local industry veteran. Alan Arthur, Aeon President & CEO, shared his insights into the metro's housing scene and offered his predictions for the affordable segment. Arthur also discusses how the Minneapolis 2040 plan will impact the market while its economic performance lags behind the national average.

Tell us about housing demand across the Twin Cities.

The market is very hot. Vacancies are low—they've been at 3 percent or lower for a while. Higher-priced new properties are pushing vacancies up somewhat, but affordable units remain in great demand.

What challenges have you faced when developing affordable multifamily projects?

Our biggest challenge is access to cheap and free capital, so we can keep apartments affordable. If we had access to four times as much affordable capital, Aeon could preserve and build four times as many affordable apartments. Most communities are asking for us to do more. Solving the capital problem is the biggest challenge—especially getting enough very low-priced and free capital that allows us to keep rents affordable to households at the very bottom of the income ladder.

How do you think the Minneapolis 2040 plan will improve affordability?

There was far too much angst, pros and cons, around the Minneapolis 2040 plan. The plan will not have a negative impact on good neighborhoods—indeed, most of the best neighborhoods in the world look like what the Minneapolis 2040 plan promotes. And contrary to assertions, it will not have an appreciable impact on affordability. Additional units created in good neighborhoods will mostly rent at prices that good neighborhoods can command. The assertion that somehow overbuilding the market will lower rents is ridiculous. It's neither market rational nor sustainable as a means to quality affordability.

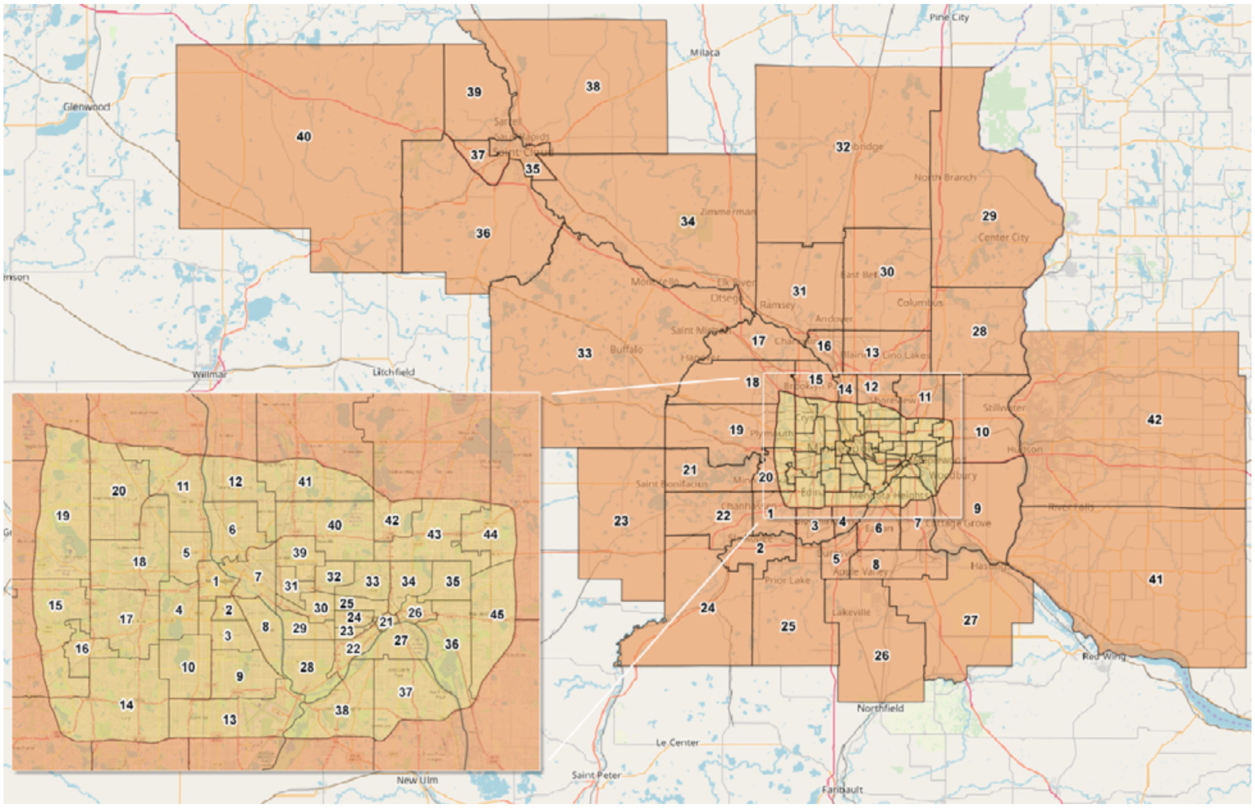
The Metropolitan Council forecasts that the region will add 37,400 low- and moderate-income households over the next decade. How is the city preparing for that?

Our communities are not prepared. Developers aren't prepared either, but could be if the communities acted. As long as almost half the jobs we create are at incomes that would qualify people for affordable housing, we're headed for the doubling of homelessness in the Twin Cities.

Do you expect the affordable housing market to evolve in the Twin Cities in 2020?

I think the entire U.S. is headed towards the worst housing problem for lower-income families and individuals since the Great Depression in the 1930s. I believe homelessness is going to double. I expect the Twin Cities to face at least two decades of pain on this front.

TWIN CITIES SUBMARKETS



Area No.	Submarket
1	Minneapolis–Central
2	Minneapolis–Phillips
3	Minneapolis–Powderhorn
4	Minneapolis–Calhoun Isle
5	Minneapolis–Near North
6	Minneapolis–Northeast
7	Minneapolis–University
8	Minneapolis–Longfellow
9	Minneapolis–Nokomis
10	Minneapolis–Southwest
11	Brooklyn Center/Camden
12	Columbia Heights
13	Richfield
14	Edina/Eden Prairie
15	Minnetonka

Area No.	Submarket
16	Hopkins
17	St. Louis Park
18	Golden Valley
19	Plymouth
20	New Hope/Crystal
21	St. Paul–Downtown
22	St. Paul–West Seventh
23	St. Paul–Summit Hill
24	St. Paul–Summit-University
25	St. Paul–Thomas-Dale
26	St. Paul–Dayton's Bluff
27	St. Paul–West Side
28	St. Paul–Highland
29	St. Paul–Macalester-Groveland
30	St. Paul–Lexington Hamline

Area No.	Submarket
31	St. Paul–St.Anthony
32	St. Paul–Como
33	St. Paul–North End
34	St. Paul–Payne-Phalen
35	St. Paul–Greater East Side
36	St. Paul–Sunray-Battlecreek
37	West St. Paul
38	Mendota
39	Falcon Heights
40	Roseville
41	New Brighton
42	Little Canada
43	Maplewood
44	Oakdale–North
45	Oakdale–South

Area No.	Submarket
1	Eden Prairie
2	Shakopee
3	Bloomington–West
4	Bloomington–East
5	Burnsville
6	Eagan
7	Inver Grove Heights
8	Apple Valley
9	Woodbury/Cottage Grove
10	Stillwater
11	White Bear Lake
12	Mounds View
13	Blaine
14	Fridley

Area No.	Submarket
15	Brooklyn Park
16	Coon Rapids
17	Champlin–Rogers
18	Maple Grove
19	Plymouth
20	Minnetonka
21	Spring Park
22	Chaska
23	Wacoma
24	Jordan
25	Savage
26	Lakeville
27	Hastings
28	Forest Lake

Area No.	Submarket
29	Chisago City
30	Andover
31	Anoka
32	Cambridge
33	Buffalo
34	Elk River
35	St. Cloud–North
36	St. Cloud–South
37	Waite Park
38	Sauk Rapids
39	Sartell
40	Melrose
41	River Falls
42	Hudson

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.