

Yardi® Matrix

MULTIFAMILY REPORT

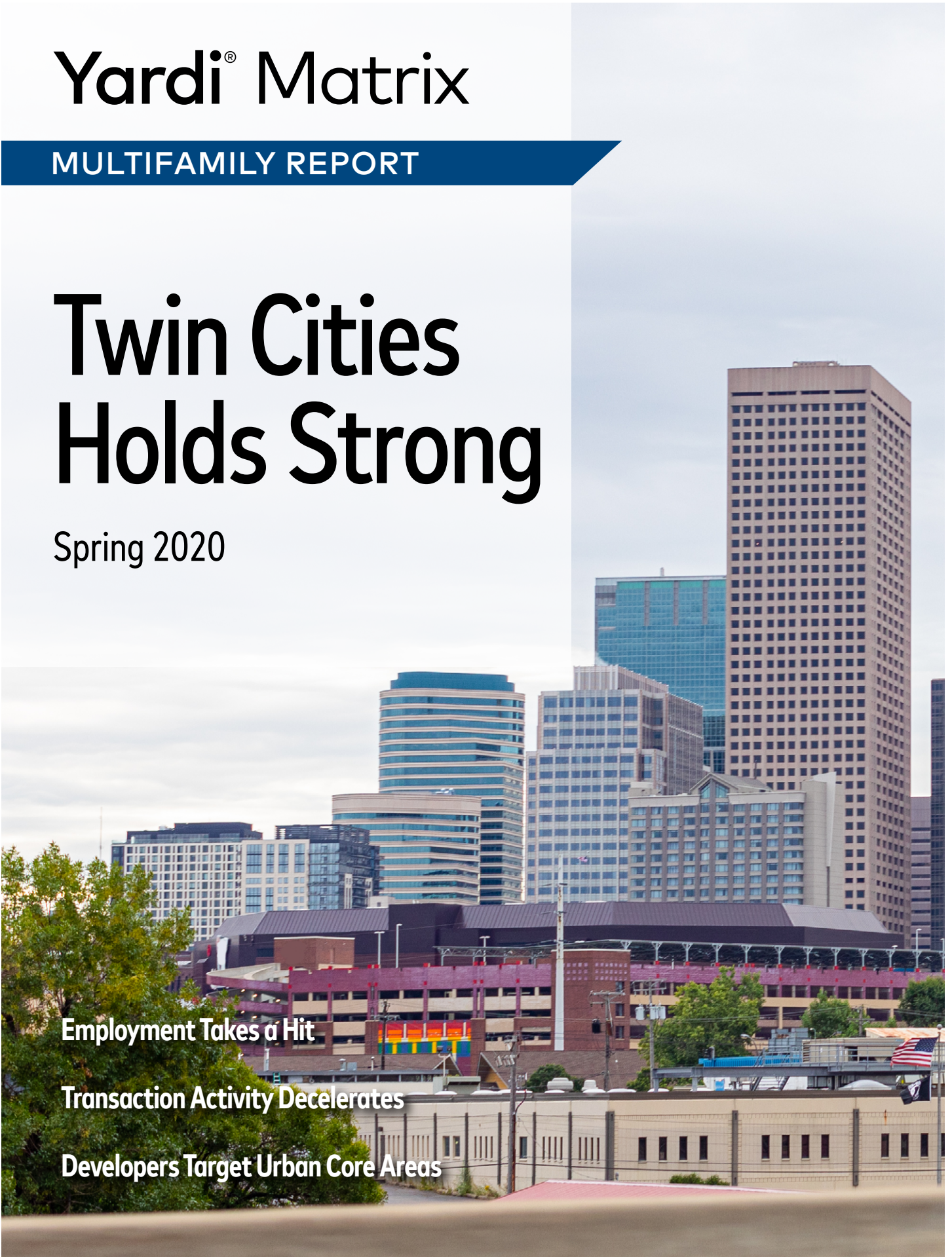
Twin Cities Holds Strong

Spring 2020

Employment Takes a Hit

Transaction Activity Decelerates

Developers Target Urban Core Areas



TWIN CITIES MULTIFAMILY

Yardi® Matrix

Economic Growth Faces New Challenges

Fueled by steady demographics, Twin Cities' multifamily market has remained stable, despite headwinds caused by the coronavirus outbreak. Although on a downward trajectory, rent growth in Minneapolis-St. Paul is still above the national rate. On a trailing three-month basis as of March, rents were up by 0.3% to an average of \$1,339.

Employment growth plateaued last year, due to significant losses in education and health services and professional and business services (-9,100 jobs combined). The beginning of the year also brought new trials for hospitality, retail and construction. As of mid-April, 14% of Minnesota's workers had applied for unemployment insurance, according to the Minnesota Department of Employment and Economic Development. To help offset costs associated with the health crisis, the state is expected to receive \$2.2 billion through the federal coronavirus relief package. Another helpful measure is the Pandemic Emergency Unemployment Compensation program, which provides a 13-week extension of unemployment benefits.

Multifamily sales volume was limited in the first quarter and investors will likely wait for the market to stabilize. With many new landlords already offering rent concessions, demand is likely to soften in the short and medium term.

Market Analysis | Spring 2020

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern

Director of Research
and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Laura Calugar

Senior Associate Editor

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Recent Twin Cities Transactions

Huntington Place



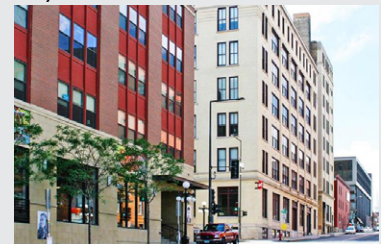
City: Brooklyn Park, Minn.
Buyer: Aeon
Purchase Price: \$75 MM
Price per Unit: \$89,928

Eitel



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

Rayette Lofts



City: St. Paul, Minn.
Buyer: The Goodman Group
Purchase Price: \$21 MM
Price per Unit: \$240,909

The Tradewinds

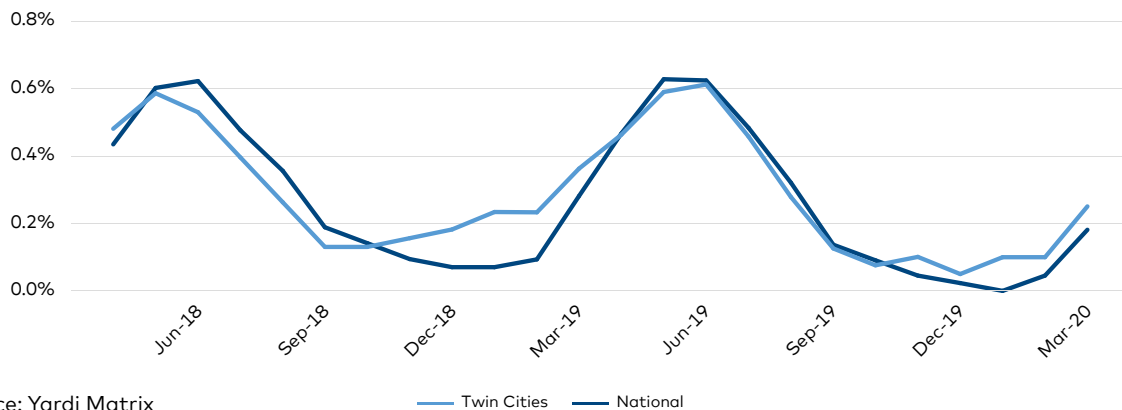


City: New Hope, Minn.
Buyer: Relay Properties
Purchase Price: \$12 MM
Price per Unit: \$100,417

RENT TRENDS

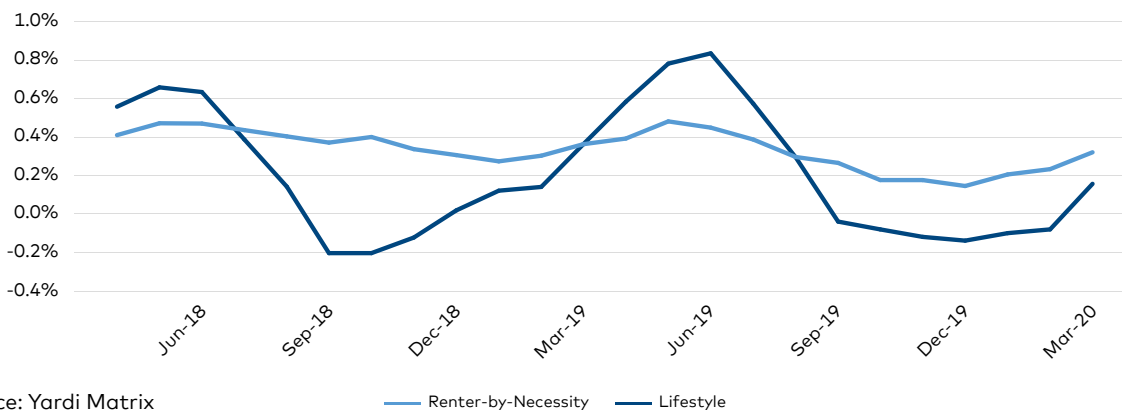
- ▶ Rent growth in Minneapolis-St. Paul was 0.3% on a trailing three-month basis as of March, slightly above the 0.2% U.S. rate. At \$1,339, average rents in the metro were \$135 below the national figure.
- ▶ In the first quarter of 2020, rent growth was led by the working-class Renter-by-Necessity segment, up by 0.3% on a trailing three-month basis to \$1,149, while in the higher-end Lifestyle segment rent growth was 0.2%. As of March, the average rent for upscale properties was \$1,704.
- ▶ In the 12 months ending in March, rents had grown at the strongest rates across northern submarkets such as Maple Grove—still the most expensive suburban area—Mounds View and Stillwater. Meanwhile, core urban areas in St. Paul had the highest rates, with St. Paul-St. Anthony (\$1,840) leading the way, followed by St. Paul-West Seventh (\$1,816).
- ▶ Although the data for March does not fully reflect the impact the coronavirus outbreak has had on Twin Cities' multifamily market, demand is likely to weaken as Minnesotans are urged to practice social distancing and close nonessential businesses. An early indicator of this is rent concessions. New buildings operators are offering a free month of rent for new renters signing a 12-month lease.

Twin Cities vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Twin Cities Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Job gains were trending downward in the second half of 2019, with Minneapolis-St. Paul gaining only 3,300 positions. Employment growth had almost stagnated due to significant losses in education and health services (-7,500 jobs) and professional and business services (-1,600).
- ▶ Even before the economic disruption caused by the coronavirus, Twin Cities' employment market was tight, and the pandemic exacerbated this. According to the Minnesota Department of Employment and Economic Development, almost 18% of Hennepin and Ramsey counties' 2019 labor force applied for unemployment insurance between March 16 and April 20. As of mid-April, the state had received applications for more than 14% of Minnesota's total labor force, with retail and hospitality workers most impacted. JBS Pork—the largest employer in Worthington, Minn.—closed its processing plant, a hotspot for COVID-19 infections. On a more positive note, Graco occupied its new 479,766-square-foot facility in Rogers, Minn. The new space more than doubles the company's footprint in the city.
- ▶ Minnesota was one of the first states to make the \$600 stimulus payments available under the coronavirus aid package, and state officials have also granted a 13-week extension of unemployment benefits.

Twin Cities Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	196	9.2%
80	Other Services	85	4%
55	Financial Activities	157	7.4%
40	Trade, Transportation, and Utilities	397	18.7%
15	Mining, Logging, and Construction	86	4%
30	Manufacturing	215	10.1%
90	Government	266	12.5%
50	Information	38	1.8%
60	Professional and Business Services	333	15.7%
65	Education and Health Services	352	16.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ In 2018, Minneapolis-St. Paul gained 36,521 residents, up by 1.0% and 40 basis points above the U.S. rate.
- ▶ By 2040, the Twin Cities region will be more racially and ethnically diverse, according to a Metropolitan Council forecast. Additionally, one in every five residents will be age 65 or over.

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

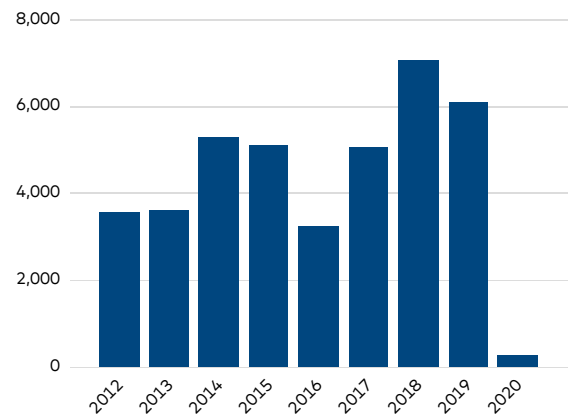
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Minneapolis-St. Paul had 13,287 units under way as of March, with more than three-quarters of those catering to high-income residents. Development activity remained significantly stronger in the urban core, with Minneapolis-Central (2,508 units underway) leading the development pipeline, followed by Calhoun Isles (895 units) and University (827 units).
- ▶ Through the first quarter, developers added some 296 apartments to Twin Cities' stock. This comes after 6,119 units came online in 2019, the cycle's second-best year for completions. Although a Minnesota statewide order closed nonessential businesses, housing construction and most affiliated trades were among the few industries deemed an essential service. Almost 10,000 units are scheduled to be completed this year. However, with supply chains disrupted by the coronavirus pandemic and many contractors significantly reducing their operations, there's a strong likelihood that many projects will fall behind schedule.

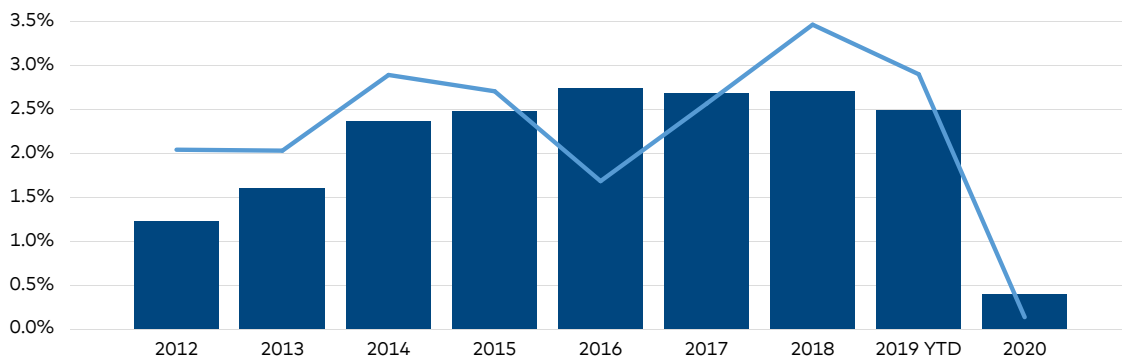
- ▶ The largest project under construction is the 459-unit RiZE on Grand, one of the first major Class A developments in the Burnsville submarket. Florida-based LeCesse Development is building the five-story upscale project using a \$44.7 million construction loan funded by U.S. Bank.

Twin Cities Completions (as of March 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

— Twin Cities ■ National

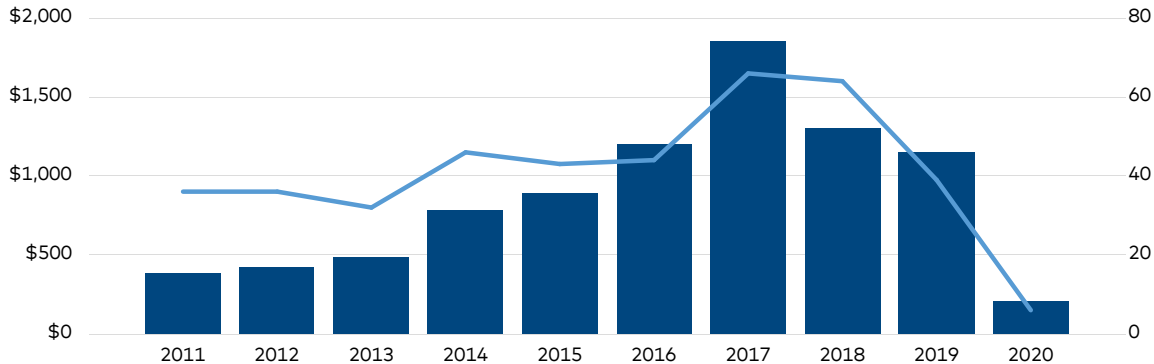
TRANSACTIONS

- ▶ Investor interest in Minneapolis-St. Paul was modest in the first quarter, with only \$204 million in multifamily properties changing hands. This follows four consecutive years with total transaction volumes surpassing \$1.2 billion each year. Due to uncertainties around the length and depth of the coronavirus crisis, investors are largely moving to the sidelines.
- ▶ Last year, although capital heavily favored Rent-by-Necessity assets, the average per-unit

price was \$172,588, slightly above the \$168,297 national average.

- ▶ In the 12 months ending in March, urban submarkets were the most coveted, with Minneapolis-Central (\$215 million) leading the way. Non-core areas also remained in high demand—of the \$1.1 billion in total investment volume, suburban submarkets accounted for \$438 million.

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



Source: Yardi Matrix

— Number of Properties ■ Volume in Millions

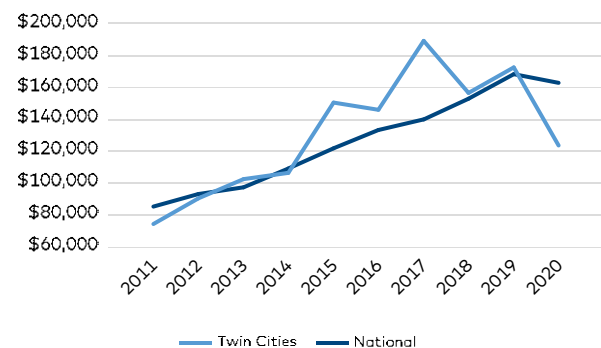
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Minneapolis-Central	215
Woodbury/Cottage Grove	202
Minneapolis-Calhoun Isle	96
Brooklyn Park	84
St. Paul-Como	81
Edina/Eden Prairie	69
Burnsville	54

Source: Yardi Matrix

¹ From April 2019 to March 2020

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

TOP TOP 5 TRANSACTIONS IN THE TWIN CITIES



By Timea-Erika Papp

data by
Yardi Matrix

Transaction activity in Twin Cities' multifamily sector has been consistent over the past four years, with sales volume repeatedly exceeding the \$1 billion mark, according to Yardi Matrix data. While deal velocity has slightly moderated in recent years, due to late-stage real estate expansion, 2019 was still a good year for sales, with transaction volume totaling \$1.2 billion.

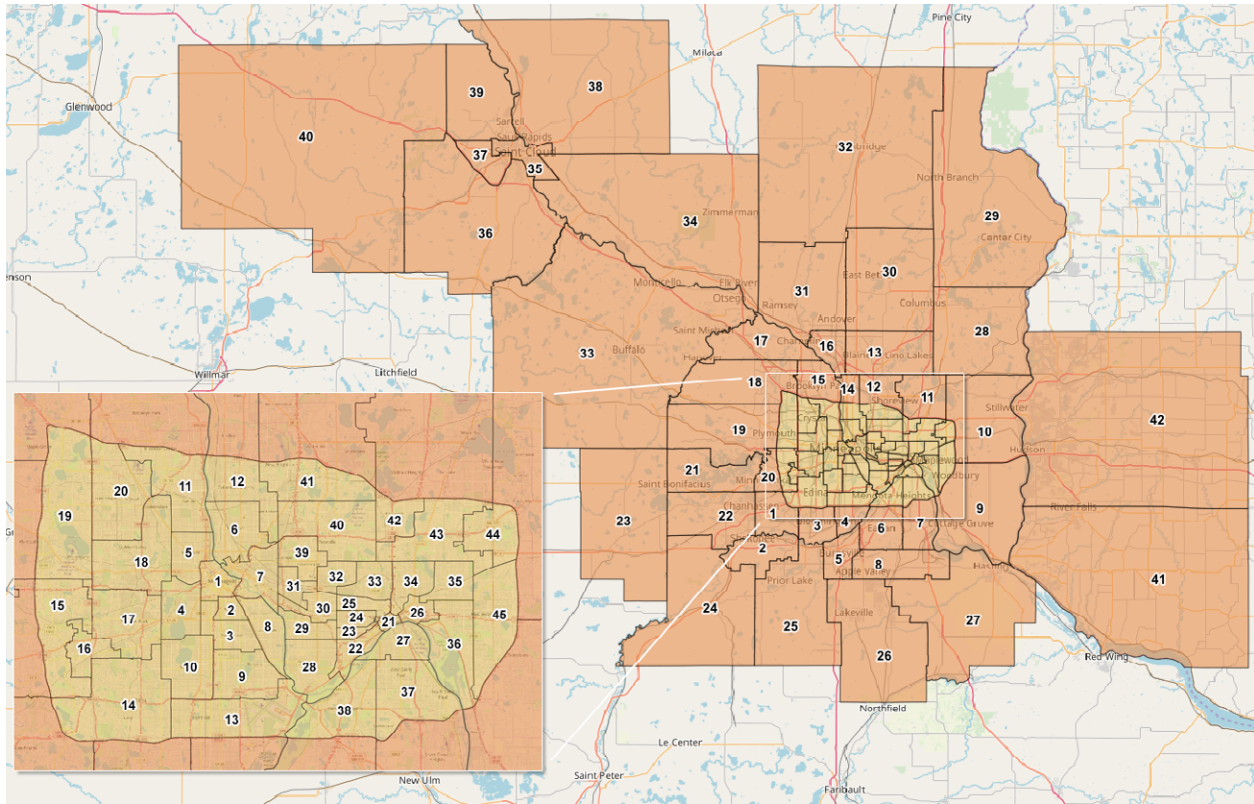
Rank	Property name	Sales Price	Buyer	Seller	Sale Date
1	Huntington Place	\$75	Aeon	Dominium	02/03/2020
2	Eitel	\$55	Sentinel Real Estate	BlackRock	01/16/2020
3	Village Club of Bloomington	\$45	Aeon	Village Green Management	01/07/2020
4	Rayette Lofts	\$21	The Goodman Group	Sherman Associates	03/27/2020
5	The Tradewinds	\$12	Relay Properties	Kingsriter, Jeffrey A.	02/07/2020

HUNTINGTON PARK

The Huntington Park deal marks Aeon's second Twin Cities acquisition in the first quarter of 2020. The state's second-largest affordable housing property traded for \$75 million, or \$89,928 per unit. Seller Dominion Real Estate had owned the 824-unit megacomplex since 1996. The property is another byproduct of the NOAH Impact Fund. Aeon aims to preserve its affordability with help from the Twin Cities Local Initiatives Support Corp. and National Equity Fund, programs which funded a combined \$76.6 million of local and national resources for this deal.



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	Minnnetonka

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	Minnnetonka
21	Spring Park
22	Chaska
23	Waconia
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.

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