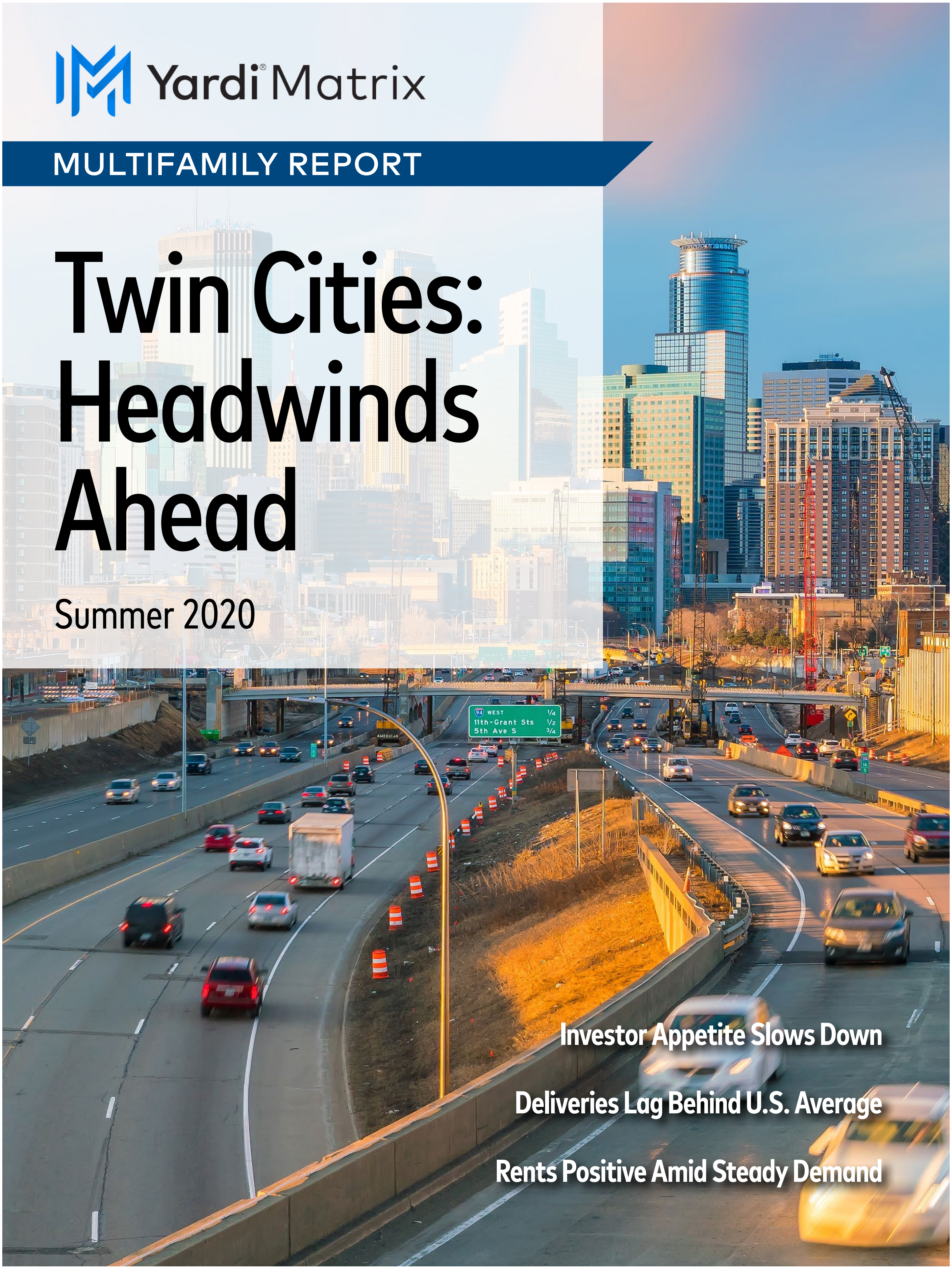
Yardi® Matrix

MULTIFAMILY REPORT

Twin Cities: Headwinds Ahead

Summer 2020



Investor Appetite Slows Down

Deliveries Lag Behind U.S. Average

Rents Positive Amid Steady Demand

TWIN CITIES MULTIFAMILY

Yardi Matrix

Coronavirus Hits Employment Market

Despite headwinds caused by the pandemic, the Minneapolis-St. Paul multifamily rental market remained resilient in the first seven months of 2020. Rents avoided negative territory; on a trailing three-month basis through July, rates were up 0.2% to $1,351. Meanwhile, the average U.S. figure contracted by 0.1% to $1,460.

However, the metro's economy as a whole was not immune to fallout from the ongoing health crisis and the civil unrest that Minneapolis faced at the end of May. The Twin Cities unemployment rate hit 10.1% in the fifth month of the year, according to data from the Bureau of Labor Statistics, with leisure and hospitality bleeding the most jobs. Other sectors were also severely impacted. Mattress maker and retailer Sleep Number was among the first of the state's public companies to announce mass furloughs. The firm laid off 40% of its 4,400 employees. Many restrictions have now been lifted, but doubts about when the economy will rebound are still widespread.

Roughly 340 million in multifamily assets traded across the metro in the first seven months of the year, while 2,356 units came online. Despite the average occupancy level remaining above 95% as of June, we expect both construction and transactions to slow down this year. Additionally, the lingering effects of the pandemic will likely inhibit rent expansion going forward.

Market Analysis | Summer 2020

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Recent Twin Cities Transactions

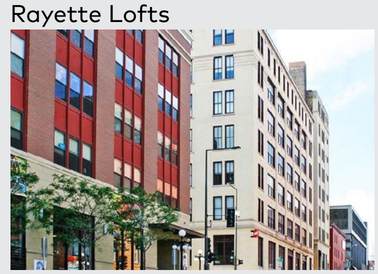
The Felix

City: Burnsville, Minn.
Buyer: Peak Capital Partners
Purchase Price: $55 MM
Price per Unit: $156,897

Olympic Ridge

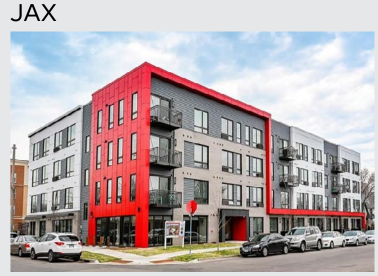
City: Eden Prairie, Minn.
Buyer: Heartland Realty Investors
Purchase Price: $26 MM
Price per Unit: $178,322

Rayette Lofts



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

JAX



City: Minneapolis
Buyer: TE Miller Development
Purchase Price: $15 MM
Price per Unit: $228,846

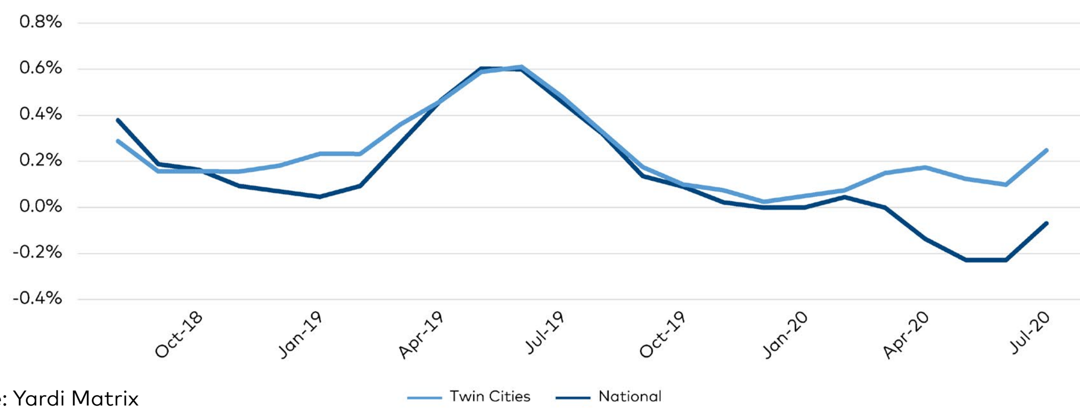
RENT TRENDS

- Rents in Twin Cities were up 0.2% on a trailing three-month (T3) basis through July, 30 basis points above the national rate. Due to steady demand in the Renter-by-Necessity segment—which makes up three-quarters of the metro's rental stock—rent growth has remained in positive territory since the onset of the pandemic. As of July, the average overall rent in Minneapolis-St. Paul was $1,351. Among Midwestern metros, only Chicago had a higher average rent—$1,524. Rent growth in Twin Cities was led by the working-class RBN segment, up 0.3% on a T3 basis to $1,160, while in the higher-end Lifestyle segment rents rose by 0.2% to $1,711.

- According to the state's multi-housing association, July collections for Class A units were 93%, rent payments for Class B assets were 90%, and Class C landlords collected 84% of rents.

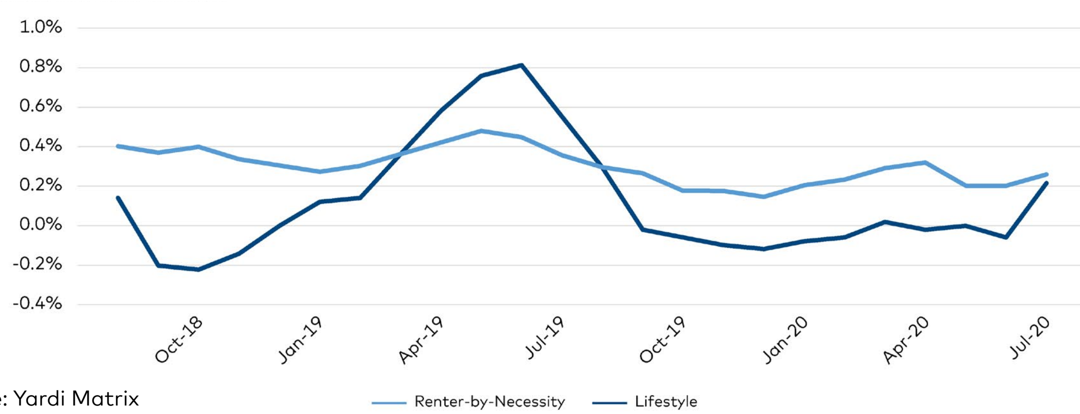
- In order to prevent evictions and maintain housing stability, Minnesota Gov. Tim Walz announced the state would direct $100 million from the federal economic aid package toward housing relief. Low-income residents impacted by the pandemic were eligible to receive rental assistance. Additionally, the St. Paul City Council unanimously passed five new renter protections, which will go into effect next year. Known as Stable, Accessible, Fair and Equitable Housing Tenant Protections, the laws largely prevent landlords from rejecting potential renters based on criminal convictions, prior evictions or poor credit reports.

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

- Minneapolis-St. Paul's employment growth has been slowly decelerating since the beginning of 2019, with the pandemic further aggravating woes. The ongoing health crisis propelled the metro's unemployment rate from 3.1% in March to 10.1% in May, according to BLS data. Despite the jobless rate remaining roughly triple what it was before the pandemic, preliminary data in June showed signs of improvement.

- In the 12 months ending in May, the leisure and hospitality sector in Twin Cities lost half of its total workforce, followed by other services (-22.0%), information (-12.9%), and education and health services (-12.3%). Nonprofits and other organizations have been hit hard by the COVID-19-mandated closures as they heavily rely on revenue from events and visitors. Approximately a third of all nonprofit workers across the state filed unemployment claims. Between March 16 and Aug. 5, almost 900,000 Minnesotans applied for unemployment benefits. Meanwhile, operations and logistics were among the sectors that have seen an increase in job postings during the pandemic, with Amazon and FedEx both hiring at their Minnesota facilities.

- Although many restrictions on businesses have been lifted, employers remain cautious and uncertain about where the economy is headed.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	159	8.5%
50	Information	32	1.7%
15	Mining, Logging and Construction	88	4.7%
30	Manufacturing	199	10.6%
80	Other Services	65	3.5%
60	Professional and Business Services	319	17.0%
90	Government	246	13.1%
40	Trade, Transportation and Utilities	349	18.6%
65	Education and Health Services	321	17.1%
70	Leisure and Hospitality	102	5.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Minneapolis-St.Paul gained 25,718 residents last year for a 0.7% uptick, more than double the U.S. rate.

- Between 2010 and 2019, the metro added almost 300,000 residents. That marked an 8.9% demographic expansion, 280 basis points above the national rate.

Twin Cities vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Twin Cities	3,554,690	3,592,669	3,629,190	3,654,908

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

SUPPLY

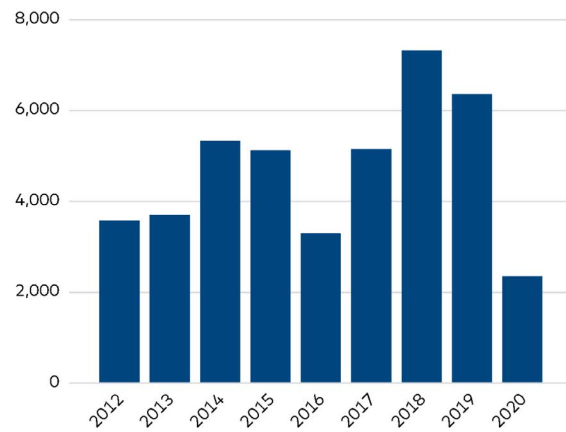
- Minneapolis-St. Paul had 12,304 units under construction as of July, with the market hot off a strong interval for rental deliveries. A little more than half of the units underway were initially slated to come online this year, but the global health crisis has seriously impacted development timelines.

- Since 2014, more than 32,600 units have come online. Developers added 2,356 units through the first seven months of 2020, with most of them catering to the Lifestyle segment. Construction was among the few industries deemed essential during the statewide lockdown, which was in effect between March 26 and May 17. However, developers saw some delays in obtaining materials and procuring labor.

- As of July, Minneapolis-Central, Minneapolis-University and Minneapolis-Calhoun Isle accounted for half of the inventory underway across urban areas. The vast majority of the 4,391 units under construction in these three core submarkets is geared toward high-income residents. However, the coronavirus' impact on the service and tourism industries, where employment has suffered most, will increase demand in the Renter-by-Necessity segment.

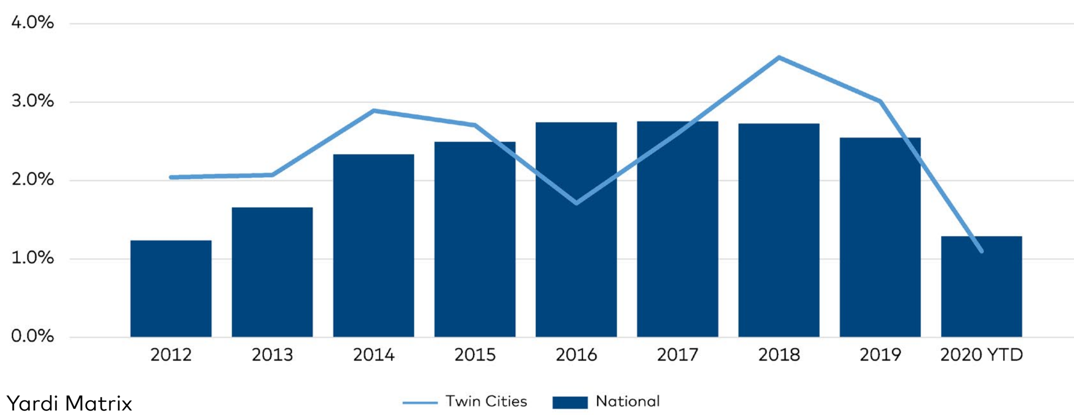
- The largest project that came online this year through July was Inland Development Partners' 284-unit Chamberlain community in Richfield.

Twin Cities Completions (as of July 2020)



Source: Yardi Matrix

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

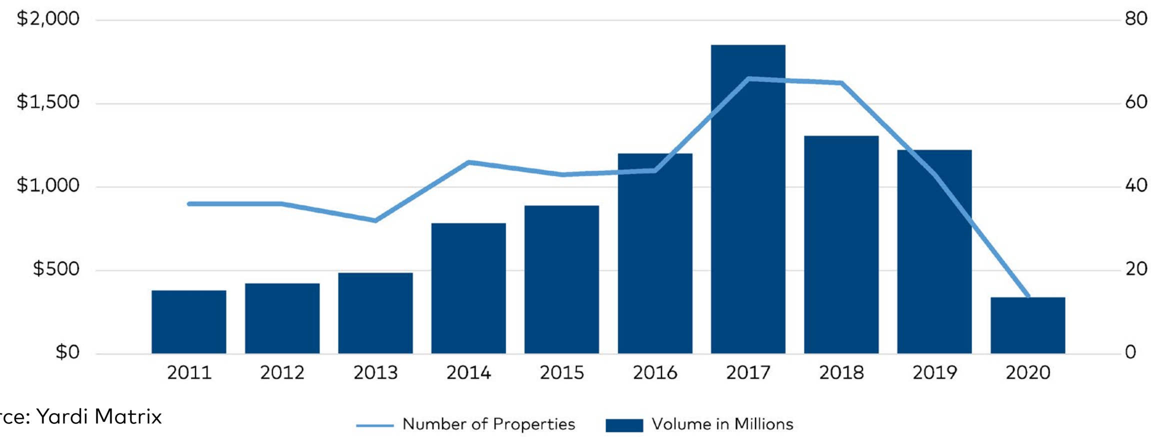


Source: Yardi Matrix

TRANSACTIONS

- Sales slowed down during the second quarter, with only $55 million in multifamily properties trading between April and June. Cancellations and delays due to coronavirus-induced uncertainties put a damper on multifamily property sales, which had started the year robustly with $285 million in the first quarter, and was largely on track to reach the most recent four-year annual average of $1.4 billion in sales. However, no assets with at least 50 units changed hands across the metro in July.
- With 10 of the 14 assets that traded this year through July catering to the Renter-by-Necessity segment, the per-unit price slid to $136,053, substantially below the $164,991 U.S. average.
- Although multifamily capital has remained abundant, investment has slowed, as underwriting future growth has become more difficult. With investors waiting to assess demand and banks far more reluctant to lend, deal flow is likely to remain weak in the coming months.

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



Source: Yardi Matrix

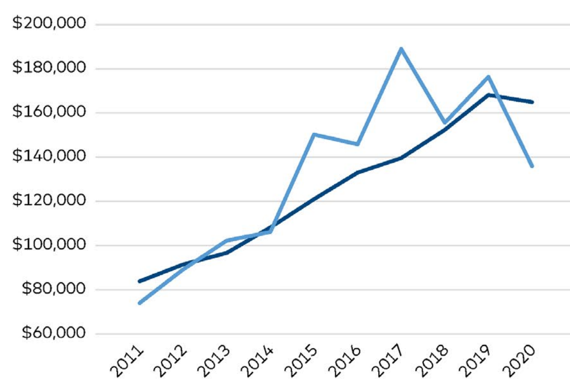
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Minneapolis-Central	198
Minneapolis-Calhoun Isle	106
Woodbury/Cottage Grove	94
St. Paul-Como	81
Brooklyn Park	75
Edina/Eden Prairie	69
Burnsville	65

Source: Yardi Matrix

[1] From August 2019 to July 2020

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

MULTI-HOUSING NEWS
data by Yardi Matrix

Top 5 Midwestern Markets for Multifamily Development

By Jeff Hamann

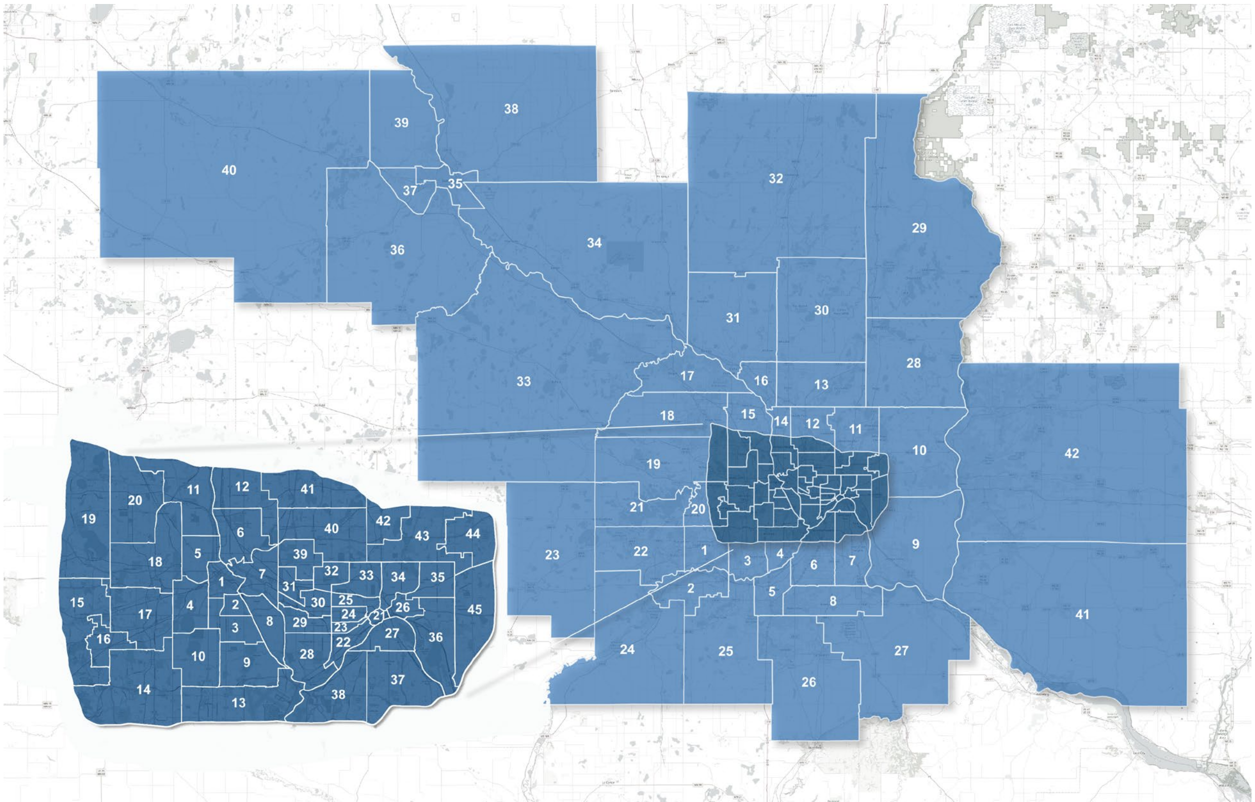
As the COVID-19 pandemic presents larger challenges for all real estate asset types, development in the Midwest's multifamily sector continues to move forward. Although fewer new projects are breaking ground and construction timelines are being prolonged, more than 85,000 units—3.7 percent of existing inventory—were underway as of mid-June, Yardi Matrix data shows.

Rank	Market	Units Underway	Projects Underway	% Stock
1	Chicago	18,287	88	5.2%
2	Twin Cities	14,308	94	6.8%
3	Kansas City	7,755	41	4.9%
4	Columbus	7,195	47	4.1%
5	Detroit	4,930	30	2.3%

TWIN CITIES

With more than 5,400 units delivered in the past 12 months, Minneapolis-St. Paul continues to draw developers. The 14,308 units underway account for 6.8 percent of the market's existing rental inventory, the highest share of any metro in the Midwest. More than 70 percent of projects are underway in the more central part of the market and the overwhelming majority of new developments are aimed at high-income renters.

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 July 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 July 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, July 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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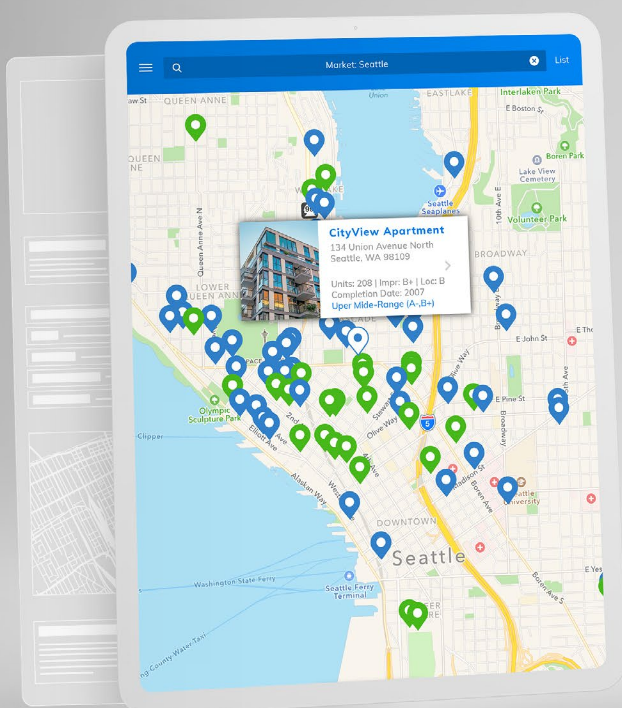

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