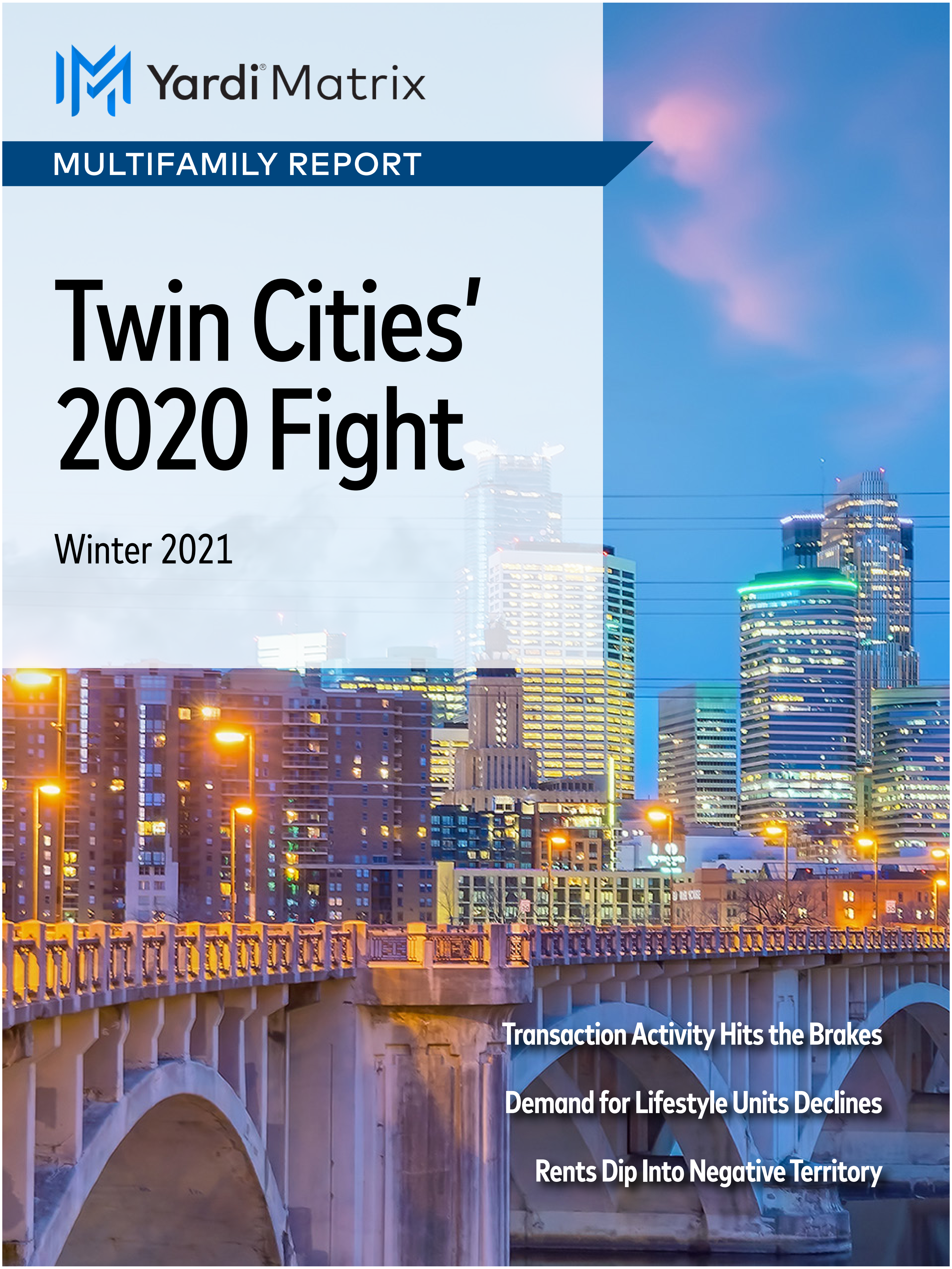
Yardi Matrix

MULTIFAMILY REPORT

Twin Cities' 2020 Fight

Winter 2021



Transaction Activity Hits the Brakes

Demand for Lifestyle Units Declines

Rents Dip Into Negative Territory

TWIN CITIES MULTIFAMILY

Yardi Matrix

Investors Hesitate as Volatility Lingers

The Minneapolis-St. Paul multifamily market has proven relatively resilient in the face of adversity, even while rent gains entered negative territory on a trailing three-month basis in September. Rates were down 0.3% to $1,332 on a trailing three-month basis through November, while the U.S. average stayed flat at $1,465.

Gradual efforts to reopen the economy brought Twin Cities' unemployment rate to 4.2% in October, 270 basis points below the U.S. figure and the lowest figure among Midwestern markets. And while service and entertainment businesses are still facing difficulties, the construction industry is beginning to pick up steam again. Ryan Cos. officially began work on Highland Bridge—a 122-acre redevelopment project on the site of the former Ford plant in St. Paul's Highland Park—and Mortenson Co. broke ground on phase two of Destination Medical Center's Discovery Square project in Rochester, the largest public-private partnership in Minnesota history.

In 2020 through November, multifamily transactions totaled $509 million, less than half the figure recorded in 2019. Meanwhile, pandemic-induced restrictions did not have a similar impact on the market's pipeline, with construction deemed essential. Some 5,200 units came online through November, in line with the metro's five-year average of 5,544 units.

Market Analysis | Winter 2021

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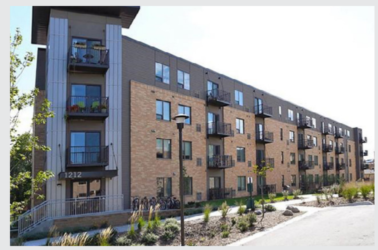
Recent Twin Cities Transactions

Valley Creek

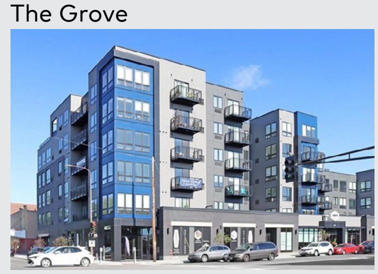
City: Woodbury, Minn.
Buyer: DRA Advisors
Purchase Price: $72 MM
Price per Unit: $178,109

The Grain Belt



City: Minneapolis
Buyer: JLL
Purchase Price: $42 MM
Price per Unit: $275,677

The Grove



City: St. Paul, Minn.
Buyer: Continental Properties
Purchase Price: $31 MM
Price per Unit: $261,941

Stadium Village

City: Minneapolis
Buyer: The University of Minnesota Foundation
Purchase Price: $25 MM
Price per Unit: $204,918

RENT TRENDS

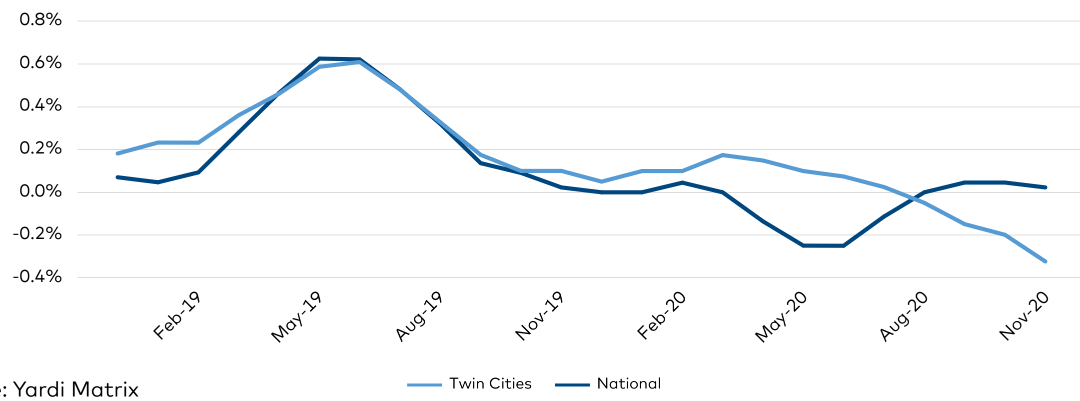
- Rents in the Twin Cities were down 0.3% on a trailing three-month (T3) basis through November, while the U.S. rate stayed flat. At $1,332, the average rent remained $133 behind the U.S. figure. Growth has been softening since mid-2019, mainly due to consistent deliveries. Year-over-year through November, Twin Cities (-0.5%) and Chicago (-3.4%) were the only Midwestern markets that recorded rent contractions.

- Lifestyle figures shrunk by 0.5% on a T3 basis to $1,664, while rates in the working-class Renter-by-Necessity segment were down 0.2%, clocking in at $1,147.

- More than 28,000 low-income Minnesotans applied for relief under a $100 million federally funded program, which was designed to prevent evictions and homelessness among residents impacted by the pandemic. According to a Greater Minnesota Housing Fund survey, an estimated 42,292 Minnesota households were unable to pay rent as of October, marking a 7% month-over-month increase.

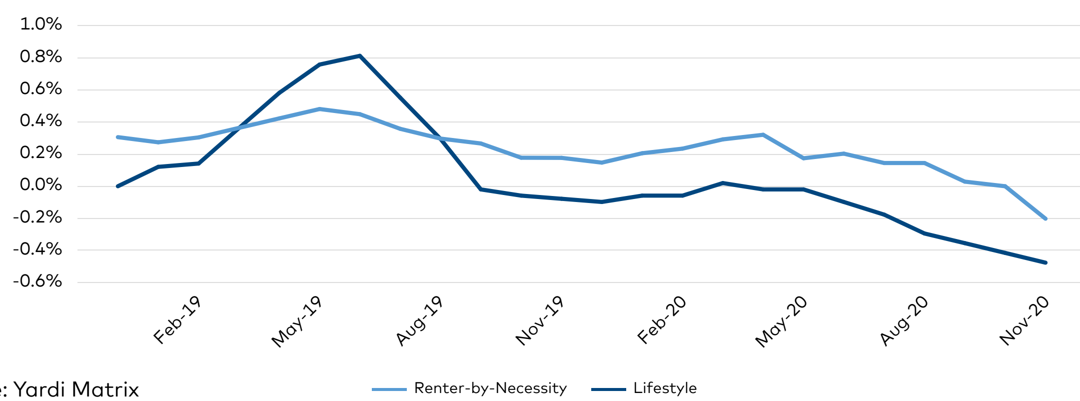
- The rise in remote work has shifted preferences throughout the U.S. and Minneapolis-St. Paul is no exception. Many residents now favor noncore, lower-density submarkets offering more private space. In the 12 months ending in November, rents grew fastest in suburban areas such as Brooklyn Park (9.1%) and Woodbury/Cottage Grove (6.0%), while dropping in more than half of the metro's urban submarkets.

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

- After peaking at 10.1% in May, unemployment in Minneapolis-St. Paul decreased to 4.2% as of October—270 basis points below the national rate—according to preliminary U.S. Bureau of Labor Statistics data. Twin Cities unemployment remained the lowest across the Midwest, followed by St. Louis (4.3%) and Kansas City (4.5%).

- As in other metros across the country, leisure and hospitality suffered the most in 2020, shedding 21.9% of its workforce in the 12 months ending in September. Meanwhile, despite inherent hardships, some developers managed to move forward. Through a virtual event, Ryan Cos. broke ground on Highland Bridge, a massive redevelopment project on the 122-acre site of the former Ford plant in St. Paul's Highland Park. Mortenson Co. also began work on phase two of Destination Medical Center's Discovery Square project in Rochester. The five-story, 125,000-square-foot structure is designed to foster life science research and innovation, a domain thriving even during the current downturn.

- In mid-December, preceding new federal funding, state officials passed a $217 million relief package for bars, restaurants, fitness clubs and other businesses. The plan also included a 13-week extension of unemployment benefits for roughly 120,000 Minnesotans.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
50	Information	33	1.6%
55	Financial Activities	160	8.0%
80	Other Services	78	3.9%
60	Professional and Business Services	333	16.6%
40	Trade, Transportation and Utilities	365	18.2%
15	Mining, Logging and Construction	91	4.5%
30	Manufacturing	205	10.2%
90	Government	244	12.1%
65	Education and Health Services	342	17.0%
70	Leisure and Hospitality	158	7.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Twin Cities gained 25,718 residents in 2019 for a 0.7% increase, more than double the 0.3% U.S. rate.

- Among large Midwestern metros, only Indianapolis (1.3%) surpassed Minneapolis-St. Paul, while Columbus and Kansas City were tied at 0.7%.

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

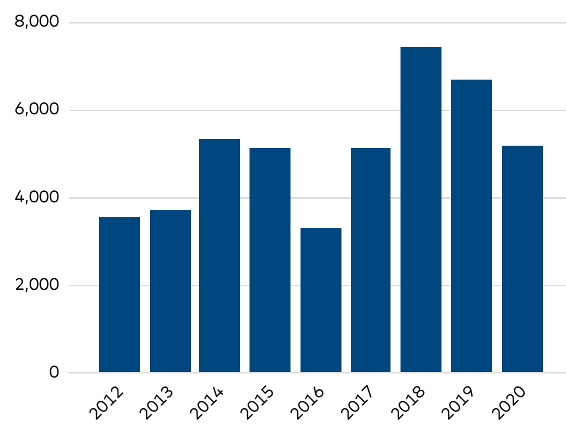
- Minneapolis-St. Paul had 12,866 units under construction as of November, with roughly two-thirds of them in urban submarkets. Some 20% of the properties underway were initially scheduled to be delivered by the end of 2020, but many developers have fallen behind schedule due to pandemic-induced difficulties.

- Despite the economic slowdown, 5,203 units were added to the metro's stock last year through November, with the market hot off a strong streak in the past couple of years. Since 2015, more than 27,700 units have come online. The bulk of deliveries and underway projects has been geared toward the high-end segment. However, coronavirus' impact across employment sectors put a dent in demand for Lifestyle apartments. The occupancy rate for stabilized assets the segment dropped to 92.9% in October 2020 from 95.1% one year prior.

- Undeterred by recent challenges, construction starts in 2020 through November were roughly 30% above the same interval in 2019, when developers broke ground on a total of 4,293 apartments across 23 communities.

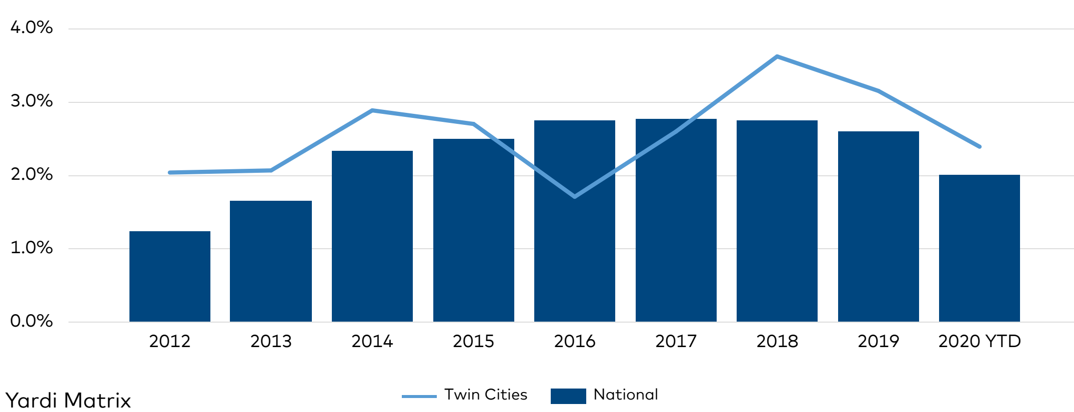
- Minneapolis-Central (1,965 units) led development as of November, accounting for 15% of the total pipeline. Minneapolis-Calhoun Isle (778 units) and St. Paul-West Seventh (659 units) rounded out the Top 3. The Richdale Group's 372-unit The Xenia in Golden Valley was the metro's largest development underway. The property is set to be completed this spring.

Twin Cities Completions (as of November 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

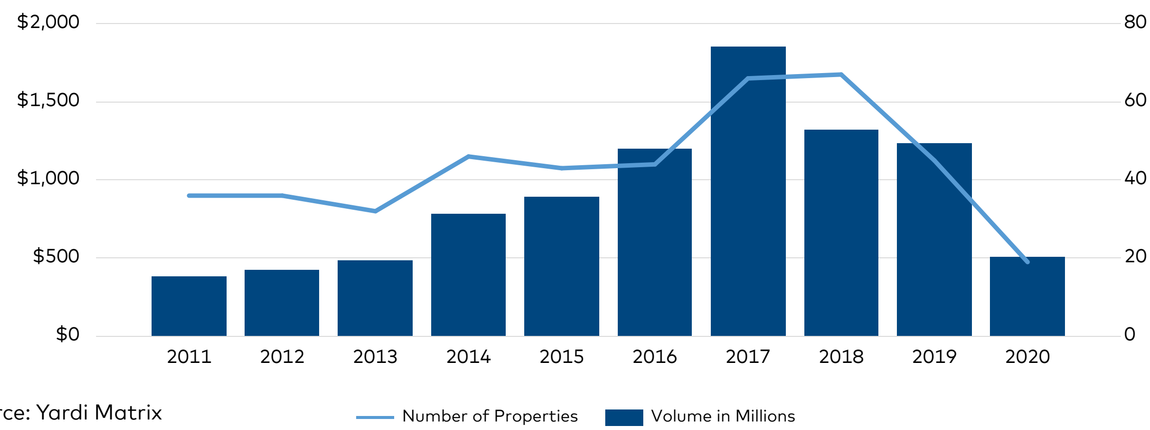
TRANSACTIONS

- Only $509 million in multifamily assets traded in Minneapolis-St. Paul last year through November. This followed four years of sales averaging $1.4 billion. Deal volume was directly affected by the lockdown instated in March and the subsequent economic volatility.

- With 11 of the 19 assets that traded in the first 11 months of 2020 catering to the Renter-by-Necessity segment, the average price per unit ($154,646) slid below the national figure ($167,022) for the first time since 2014.

- In the 12 months ending in November, two-thirds of the $639 million in total investment volume was concentrated in urban areas. However, Aeon's $75 million acquisition from Dominium of the 834-unit Huntington Place in suburban submarket Brooklyn Park—the second-largest affordable housing property in Minnesota—marked the metro's largest deal.

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



Source: Yardi Matrix

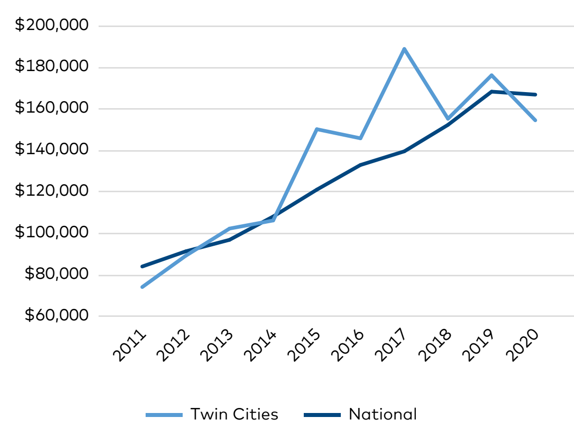
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Brooklyn Park	75
Oakdale-South	72
Edina/Eden Prairie	69
Burnsville	65
Minneapolis-Central	64
Minneapolis-Northeast	57
Minneapolis-Calhoun Isle	50

Source: Yardi Matrix

[1] From December 2019 to November 2020

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top 5 Midwestern Markets for Multifamily Transactions

By Jeff Hamann

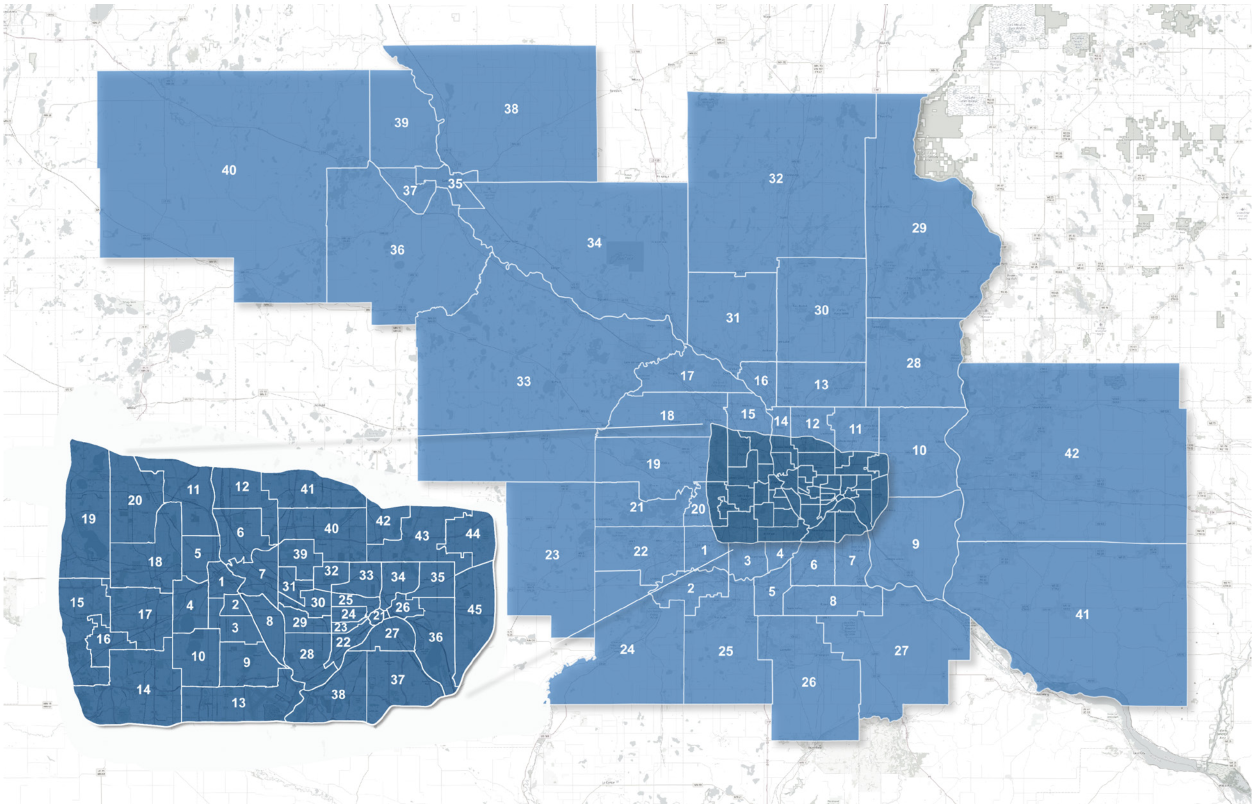
Multifamily transaction volume in the Midwest has slowed this year, with $4.5 billion in sales closing through October. This marks a 38.7 percent decrease compared to the same period last year, similar to the decline in activity nation-wide. While fewer deals and lower price points may be unsurprising given the ongoing economic volatility, investment—particularly in well-located, stabilized Renter-by-Necessity communities—still pushes on.

Rank	Market	Transaction Volume (MM)	Units Sold	Average Price Per Unit
1	Chicago	$1,005.5	6,471	$233,837
2	St. Louis	$531.8	4,595	$148,597
3	Kansas City	$470.9	8,094	$106,575
4	Twin Cities	$467.8	3,319	$148,836
5	Indianapolis	$423.4	6,120	$94,471

TWIN CITIES

The Minneapolis-St. Paul metro recorded just shy of $470 million in deals through October, essentially half the investment volume of the first 10 months of 2019, when more than $1 billion in deals closed. While transaction volume was split relatively evenly between suburban and urban zones, a clear distinction emerges in terms of asset quality: Class B and C assets made up the vast majority of acquisitions, accounting for more than 75 percent of total volume.

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 November 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 November 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, November 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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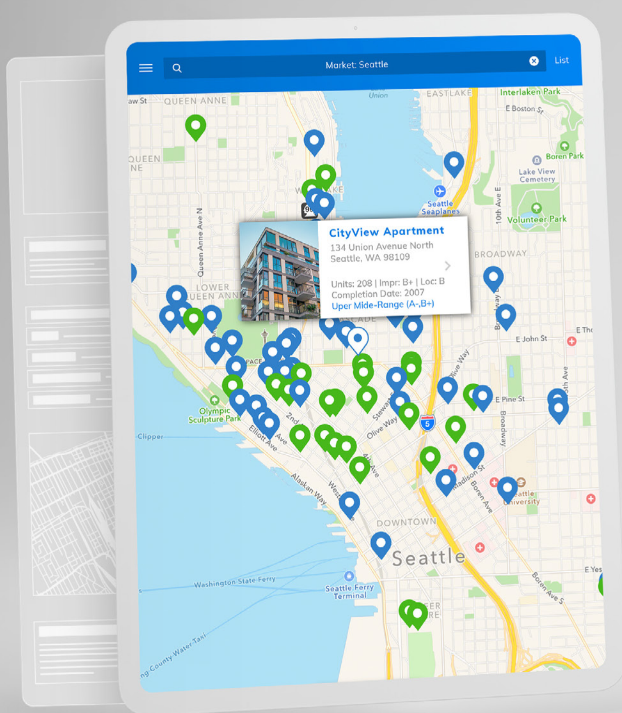

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