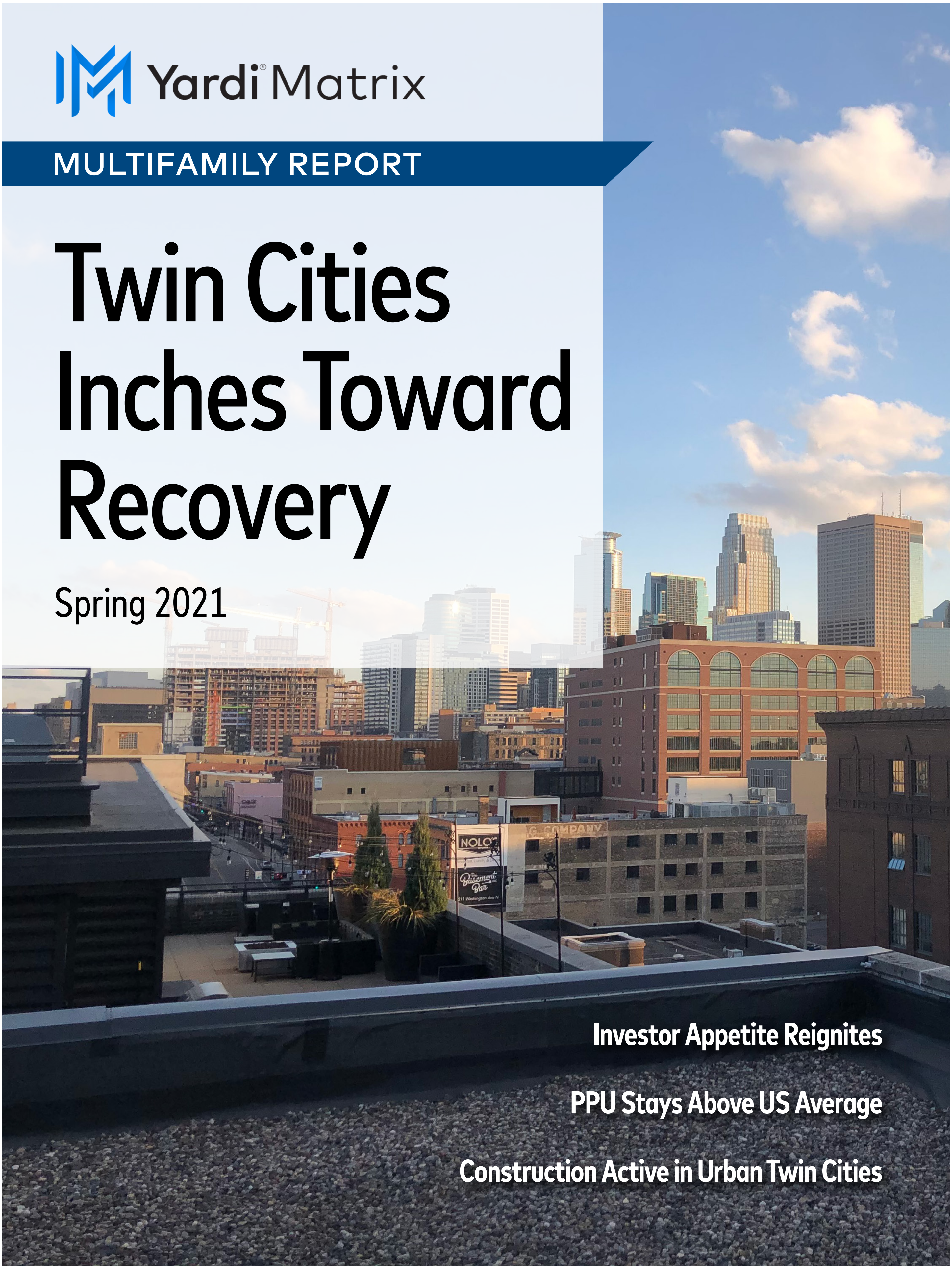
Yardi Matrix

MULTIFAMILY REPORT

Twin Cities Inches Toward Recovery

Spring 2021



Investor Appetite Reignites

PPU Stays Above US Average

Construction Active in Urban Twin Cities

TWIN CITIES MULTIFAMILY

Yardi Matrix

Rent Growth Picks Up, Deliveries Forge Ahead

Banking on its relative affordability and steady demographics, the Minneapolis multifamily market withstood the COVID-19 test, embarking on a journey to recovery. At 0.2% on a trailing three-month basis through March, rent development was on par with the national rate, despite Minneapolis-St. Paul adding an average of about 7,500 units each year since 2018.

The unemployment rate in the metro hit 4.4% in February, according to preliminary BLS data. Last year, Twin Cities lost 166,600 jobs, with employment marking a 7.1% slide. Several large employers, such as 3M, Target and Wells Fargo, reduced their workforce, but state employees were also let go because of budget deficits. On a more positive note, the Minnesota Department of Transportation announced that more than 200 construction projects will be underway this year, which is set to support thousands of construction jobs across the state.

First-quarter data paints a picture of steady performance. Developers delivered 1,991 units and transaction activity picked up steam, with some $284 million in multifamily sales. Despite these positive signs, occupancy was on a negative trend, particularly for core properties, with rates down 280 basis points year-over-year as of February to 93.0% in urban Twin Cities. Yardi Matrix expects average rents to improve by 2.5% in 2021.

Market Analysis | Spring 2021

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Recent Twin Cities Transactions

Hinton Heights

City: Cottage Grove, Minn.
Buyer: Oak Residential Partners
Purchase Price: $52 MM
Price per Unit: $208,835

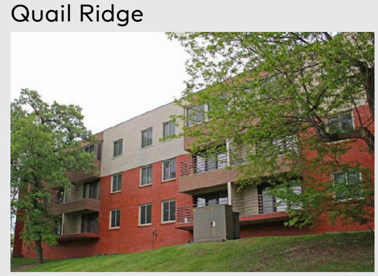
Crossroads at Elm Creek

City: Maple Grove, Minn.
Buyer: Peak Capital Partners
Purchase Price: $24 MM
Price per Unit: $244,509

Larpenteur Manor

City: Falcon Heights, Minn.
Buyer: Preferred Management Services
Purchase Price: $20 MM
Price per Unit: $141,667

Quail Ridge



City: Eden Prairie, Minn.
Buyer: Heartland Realty Investors
Purchase Price: $18 MM
Price per Unit: $164,815

RENT TRENDS

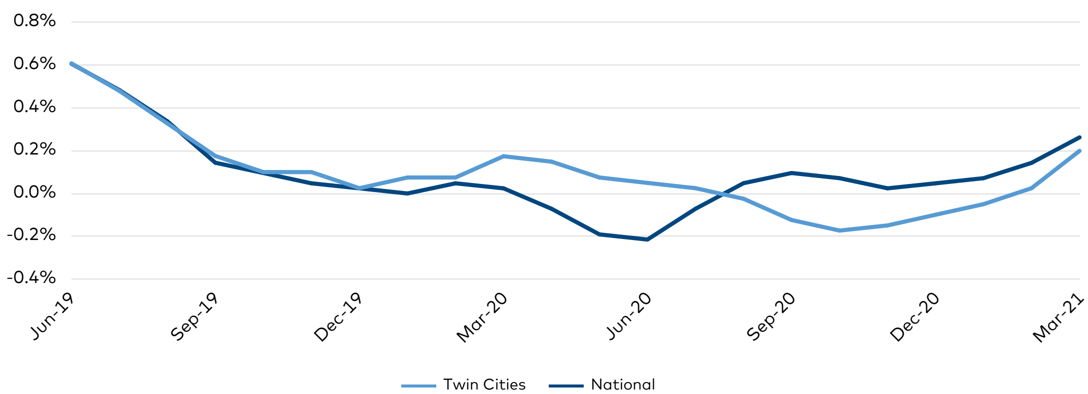
- Following four months of negative performance and two months of stagnation, Twin Cities rents rose 0.2% on a trailing three-month (T3) basis as of March. The average rent in the metro clocked in at $1,347, slightly below the $1,407 national figure. On a year-over-year basis, rent growth was relatively flat (0.1%), with Twin Cities ranking third among the top 30 U.S. metros for the most completions as a percentage of stock, behind only Austin, Texas, and Raleigh, N.C.

- The high percentage of Millennials in Minneapolis, along with the attractiveness and relative affordability of the rental market, have sustained multifamily demand. On a T3 basis, rent growth was identical (0.2%) across segments. The average rent for Renter-by-Necessity assets was $1,161, while Lifestyle rents hit $1,675.

- According to Minnesota Housing Commissioner Jennifer Ho, the state received roughly $375 million in federal housing assistance funds from the COVID-19 stimulus package enacted in December and expects an estimated $200 million more under the American Rescue Plan to help those struggling to pay rents and mortgages.

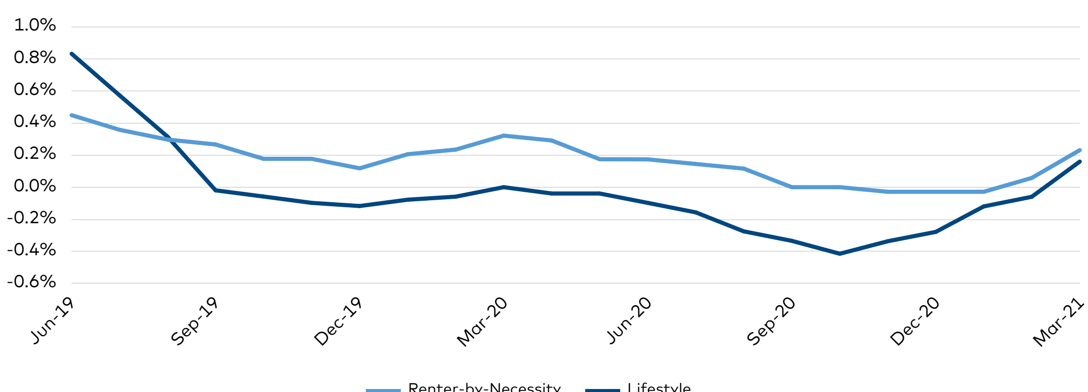
- Mirroring nationwide trends, rents in the metro's core areas contracted, while suburban rates improved. Yardi Matrix expects Minneapolis-St. Paul to absorb new supply, but rent growth will likely reach 2.5% by year-end, as the metro comes out of the pandemic.

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 2020, the unemployment rate in the metro started to gradually improve and reached 4.4% in February, according to preliminary BLS data. Job growth had been on a downward trajectory since the second half of 2019 and pandemic-induced woes only accelerated losses. Last year, the metro lost 166,600 jobs, with employment marking a 7.1% nosedive, 30 basis points below the national rate.

- To adjust to the upheaval brought on by the pandemic, several large Twin Cities employers announced significant changes. Target will be downsizing its office footprint in the city center by a third, while health-care services provider Fairview Health closed 16 clinics in Minnesota and Wisconsin, reducing its workforce by 900 employees.

- Some of the losses in the city's downtown area will be offset by Deluxe Corp., a company that is set to relocate its headquarters from Shoreview to the former TCF Building in Minneapolis' central business district. Additionally, the Minnesota Department of Transportation plans to work on more than 200 construction projects this year—including finishing the $239 million I-35W/I-94 project in Minneapolis by fall—which is set to support thousands of construction jobs across the state.

Twin Cities Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	161	8.1%
60	Professional and Business Services	336	17.0%
15	Mining, Logging and Construction	83	4.2%
50	Information	32	1.6%
80	Other Services	79	4.0%
30	Manufacturing	203	10.3%
40	Trade, Transportation and Utilities	377	19.1%
65	Education and Health Services	344	17.4%
90	Government	246	12.4%
70	Leisure and Hospitality	115	5.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The Twin Cities region gained almost 300,000 residents over the past decade, an 8.9% increase and 280 basis points above the national rate.

- Minnesota is set to gain 1.1 million new residents between 2018 and 2070, according to Minnesota State Demographic Center projections.

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

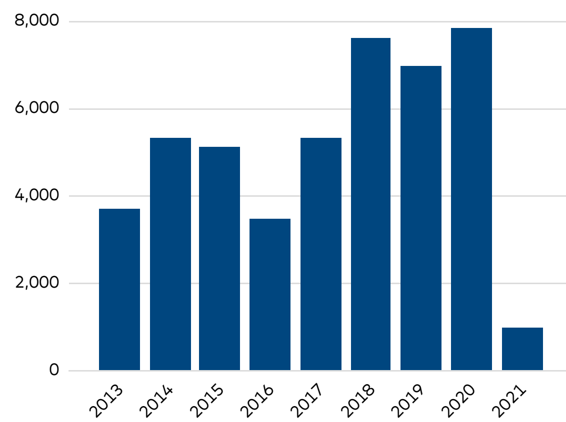
- Developers had 17,834 units under construction across the metro, with the bulk of them geared toward high-income renters. With multifamily largely withstanding health crisis-generated concerns, developers are forging ahead with their plans. Another 48,500 units were in the planning and permitting stages as of March.

- In the first quarter, 1,991 apartments were completed across the metro. Construction activity has been steady over the past three years, with developers adding an average of 7,494 units per year to inventory. Despite the monthslong lockdown last year, supply chain disruptions and contractors temporarily reducing their operations, 2020 marked a cycle peak for completions—7,865 units. And developers show no signs of slowing down. We expect 7,061 units to come online by year-end, with two-thirds of those in urban Twin Cities.

- The two urban cores—St. Paul-Highland (3,800 units under construction) and Minneapolis-Central (1,945 units)—account for almost a third of the inventory underway. By far, the largest project underway is Ryan Cos.' 3,800-unit Highland Bridge. Built on the 122-acre site of the former Ford plant in St. Paul, the master project is set to be completed in 2035.

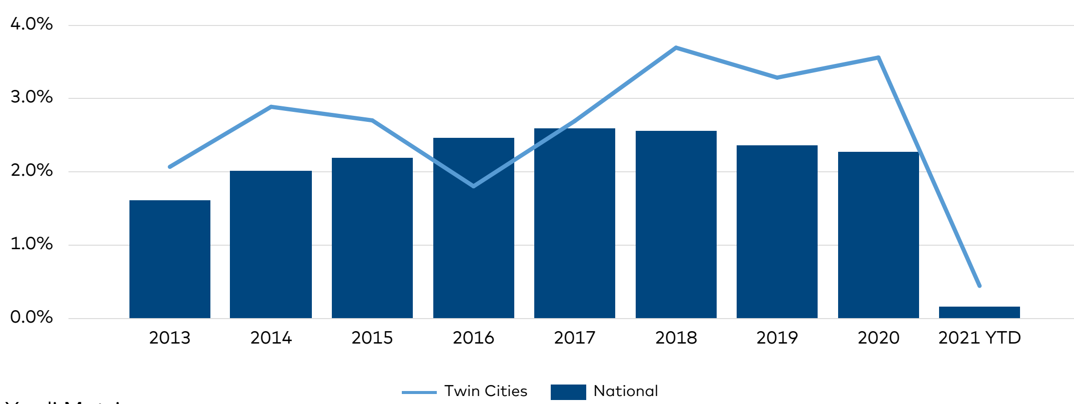
- In 2019, Minneapolis became the first large city in the U.S. to end single-family zoning, a move that fueled multifamily development, as the new legislation allows for more housing density and eliminates off-street minimum parking requirements.

Twin Cities Completions (as of March 2021)



Source: Yardi Matrix

Twin Cities vs. National Completions as a Percentage of Total Stock (as of March 2021)



Source: Yardi Matrix

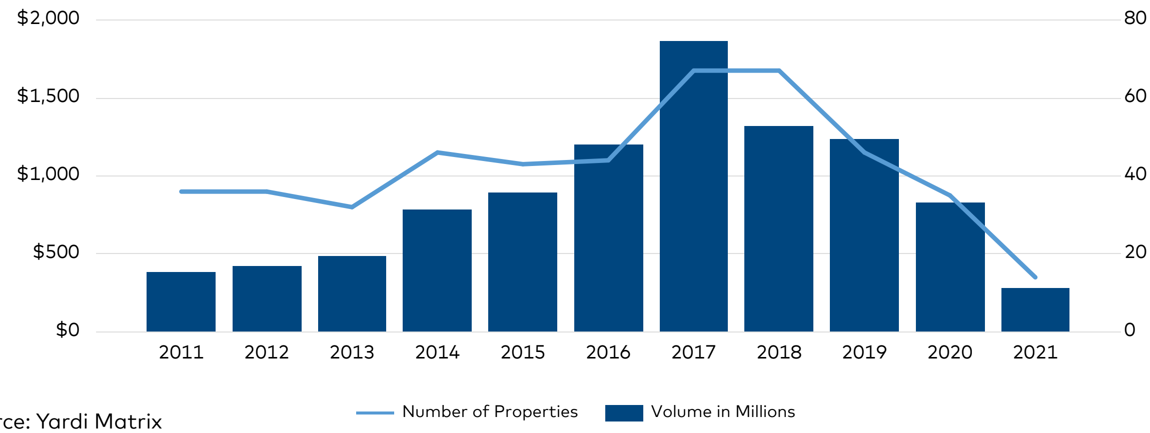
TRANSACTIONS

- At $284 million, multifamily investment in the first quarter was on par with last year's deal volume for the same interval. Transaction activity in Twin Cities dropped 33% in 2020 from the previous year, to an investment total of $830 million, the lowest level in five years.

- Although only a third of the 15 properties that traded this year through March catered to the upscale segment, the $179,043 average price per unit remained above the $170,611 U.S. figure.

- Investors continued to have a slight preference for multifamily product in core areas, with Urban Twin Cities accounting for $476 million of the $828 million in sales recorded in the 12 months ending in March. However, suburban assets are an increasingly attractive option for investors looking to capitalize on real estate opportunities in the post-pandemic context. Oak Residential Partners' $52 million purchase of the 249-unit Hinton Heights in Cottage Grove—a southeast suburb—was the largest deal of the first quarter.

Twin Cities Sales Volume and Number of Properties Sold (as of March 2021)



Source: Yardi Matrix

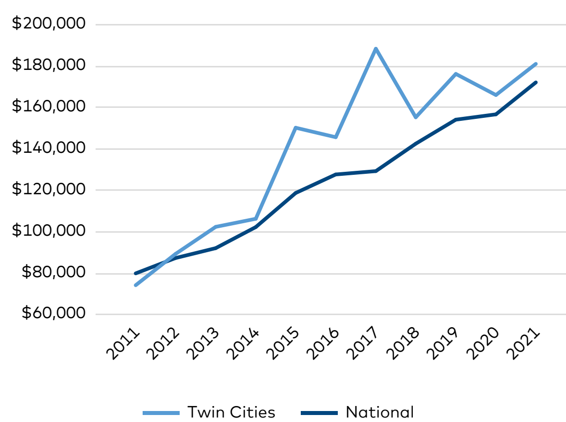
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
St. Louis Park	95
Oakdale-South	80
Shakopee	76
Minneapolis-University	72
Minneapolis-Calhoun Isle	60
Minneapolis-Northeast	57
Eagan	55

Source: Yardi Matrix

[1] From April 2020 to March 2021

Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix

Twin Cities Poised to Remain a Solid Market

By Evelyn Jozsa

For downsizing Baby Boomers and for Millennials looking to put down roots, the suburban lifestyle was becoming increasingly attractive even before the health crisis, according to Ryan Sailer, vice president of real estate development at Timberland Partners. The idea of outmigration from the urban centers was Timberland's thesis behind creating the Sundance Living platform. Here's how the concept fits into the Twin Cities' multifamily market.

How much has the Twin Cities multifamily market changed over the past 12 months?

I don't think the appetite for multifamily development has really diminished at all over the past 12 months. Early in the pandemic, some development projects were put on hold either because developers wanted to see how the effects of the pandemic would play out, or because equity became temporarily unavailable or unattractive at the terms in which it was being offered. From an acquisition standpoint, there was maybe a 30-to-60-day slowdown, but cap rates remained low and the market remained strong.

You recently opened Sundance Woodbury, a townhome-style apartment in a first-ring suburb of Twin Cities. Did the health crisis affect the development process of this property?

We were a few months into construction when the pandemic really started to shut everything down. Thankfully, in Minnesota, construction sites were not shut

down. The Sundance product type is designed so that each unit has its own direct access entry, with no common areas within the buildings themselves. This type of living option in a suburban setting was very attractive to prospective residents during a time of social distancing and the still many unknowns regarding the spread of COVID-19.

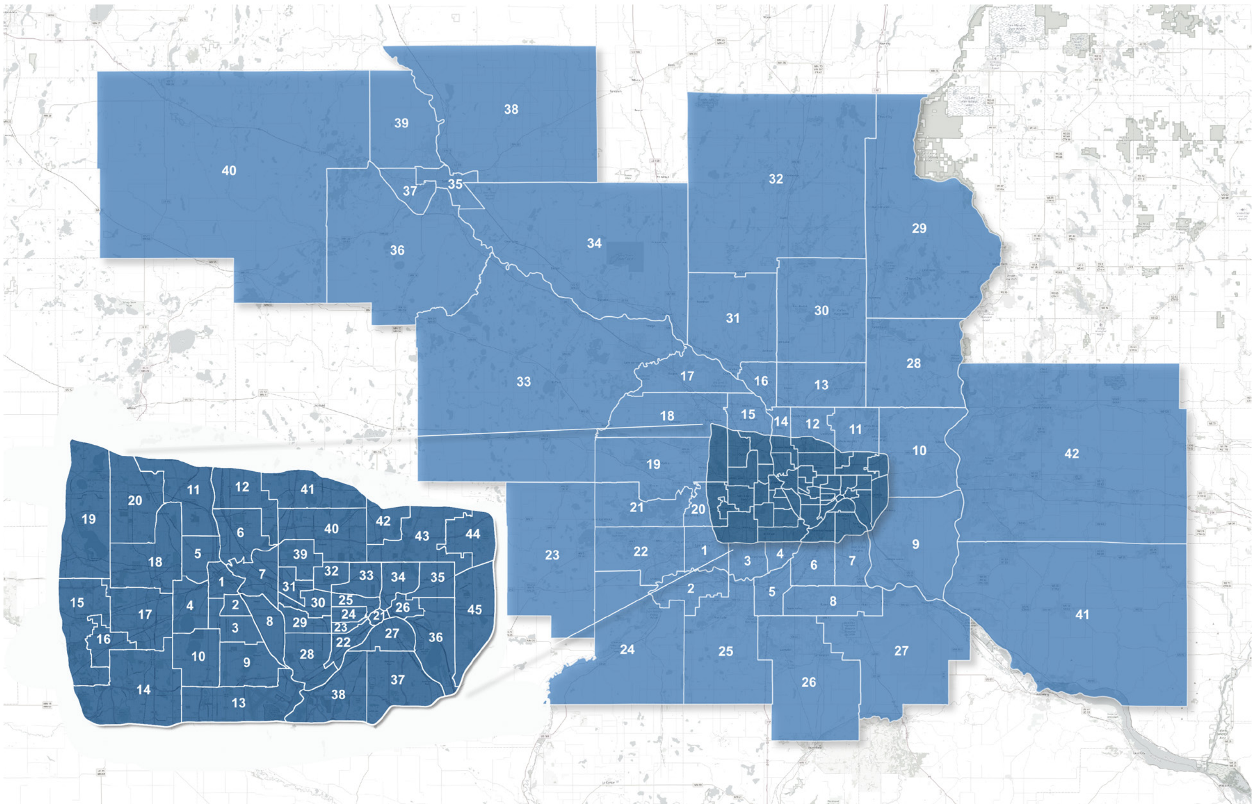
How does the Sundance concept appeal to Millennials and empty nesters?

The Sundance concept involves two-story units, but all the units are really flats, so there is one unit up and one unit down. Every unit in Woodbury has its own direct unit access and attached garage. The main level units have been very attractive to empty nesters who don't want to climb stairs. As for Millennials, most of them are now in their mid-to-upper 30s. Many have lived in apartments downtown or closer to the core, which is great when you're younger, but many are now more focused on their careers, starting a family and putting down roots in a community.

Looking ahead, what will shape the Twin Cities multifamily market?

Investment capital continues to be attracted to Twin Cities and cap rates remain very low, so I think it will continue to be a seller's market with strong demand for new and existing products from buyers. All in all, the Twin Cities multifamily market has held up very well through the pandemic, and, barring the unforeseen, should remain a solid market going forward.

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 December 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 December 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, December 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.