

# Twin Cities Gain Strength

Summer 2021

Investment Stays Strong

Deliveries Slated for Decade Peak

Leisure and Hospitality Slowly Rebounds

# TWIN CITIES MULTIFAMILY



## Rent Growth Moderates, Completions Speed Up

After a healthy run following the shock brought by the health crisis—when many residents fled gateway metros—the Twin Cities multifamily market seems to be returning to its pre-pandemic trend of slower growth. Rent expansion was flat month-over-month as of July, while on a trailing three-month basis rates were up a relatively low 0.5%, 110 basis points below the U.S. rate.

Unemployment remained above pre-pandemic levels—4.5% as of June, according to preliminary Bureau of Labor Statistics data. The Minneapolis downtown area was particularly hard hit by the latest economic downturn, as companies started to embrace flex work arrangements. After Target Corp. announced it will vacate nearly 1 million square feet of office space in City Center, nonprofit Portico Benefit Services also disclosed plans to relocate its workers from downtown Minneapolis to Edina. Job losses in the city's core will be partially offset by Deluxe Corp., a company that is bringing its 525 workers to the 801 Marquette Building in Minneapolis' CBD this fall.

In 2021 through July, developers completed 4,232 units. Yardi Matrix expects almost 8,400 units to be added to Twin Cities' stock this year, which would mark a decade high. Some urban areas are under intense pressure to absorb recently delivered units, with occupancy in stabilized properties for the metro's urban section declining from 95.1% in June 2020 to 94.2% in June 2021.

## Market Analysis | Summer 2021

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On the cover: Photo by Tammi Mild/iStockphoto.com

### Recent Twin Cities Transactions

Hello



City: Golden Valley, Minn.  
Buyer: Peak Capital Partners  
Purchase Price: \$45 MM  
Price per Unit: \$260,191

### Lake Jonathan Flats



City: Chaska, Minn.  
Buyer: Steven Scott Management  
Purchase Price: \$29 MM  
Price per Unit: \$250,437

### The Haven of Battle Creek



City: St. Paul, Minn.  
Buyer: DRA Advisors  
Purchase Price: \$26 MM  
Price per Unit: \$120,833

### Ridgebrook



City: Brooklyn Park, Minn.  
Buyer: North Shore Development Partners  
Purchase Price: \$15 MM  
Price per Unit: \$104,861

## RENT TRENDS

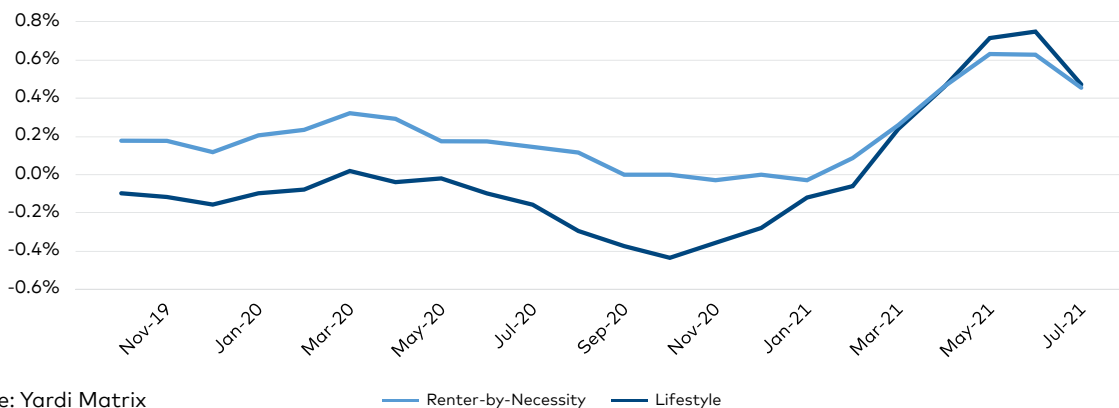
- ▶ After a slower start to 2021, rent growth picked up in March only to moderate one quarter later. Twin Cities rents posted a 0.5% increase on a trailing three-month (T3) basis as of July, significantly below the 1.6% U.S. rate. At \$1,381, the rate was \$129 below the U.S. figure.
- ▶ Rent evolution was even across the quality spectrum on a T3 basis through July. Both the working-class Renter-by-Necessity segment and the upscale Lifestyle segment were up 0.5%, to \$1,185 and \$1,715, respectively.
- ▶ Suburban rent hikes largely exceeded those of urban submarkets. Northern and northwestern areas such as Anoka (11.0% to \$1,362 year-over-year through July) and Buffalo (10.8% to \$1,273) posted the highest gains.
- ▶ As renters sought more affordable and larger housing options, the single-family rental sector prospered. In suburban Twin Cities, SFR occupancy hit 98.9% in June, while in urban Twin Cities the rate clocked in at 97.7%.
- ▶ Peaking deliveries and a slowdown in renter demand—especially in the city core—will most likely continue to moderate rent growth for the foreseeable future. Concessions and other incentives should remain common, at least for the remainder of the year. Yardi Matrix expects Twin Cities rents to expand 4.5% for the whole of 2021. Despite being a slow pace compared to other major metros, this is a steady and sustainable rate.

### 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

- ▶ Twin Cities added 156,900 jobs during the 12 months ending in May. The metro, however, recorded roughly 70,000 fewer positions as of May than in February 2020, prior to the pandemic. As in most parts of the country, leisure and hospitality suffered the most, but the sector is slowly rebounding, having regained 60,000 jobs over 12 months.
- ▶ Unemployment has been on a steadily improving trajectory, reaching 3.8% as of May. However, according to preliminary data, the rate hit 4.5% in June, 50 basis points above the state's figure. Despite the increase, several employers are having a hard time filling positions. North

Memorial Health is looking for 400 health-care workers, while Minneapolis-St. Paul International Airport hosted a job fair to fill 750 positions for restaurants, retail stores, rental car firms and aviation-related service companies.

- ▶ Layoff notices were sent to more than 38,000 state employees in June, but Minnesota legislators averted the threat of mass layoffs by passing a \$52 billion two-year state budget just before a deadline that would have generated a partial government shutdown. The budget includes spending boosts for education, money for front-line workers and rent assistance for tenants.

### Twin Cities Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	161	7.9%
40	Trade, Transportation and Utilities	362	17.8%
60	Professional and Business Services	325	16.0%
65	Education and Health Services	353	17.4%
80	Other Services	75	3.7%
90	Government	256	12.6%
30	Manufacturing	207	10.2%
15	Mining, Logging and Construction	96	4.7%
55	Financial Activities	164	8.1%
50	Information	32	1.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ The metro added 17,284 residents last year, a 0.5% uptick and 10 basis points above the national rate.
- ▶ The latest Metropolitan Council regional forecast predicts the seven-county metro area will reach 4 million residents by 2050 and nearly a quarter of them will be over 65.

### Twin Cities vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Twin Cities	3,592,669	3,629,190	3,654,908	3,672,192

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

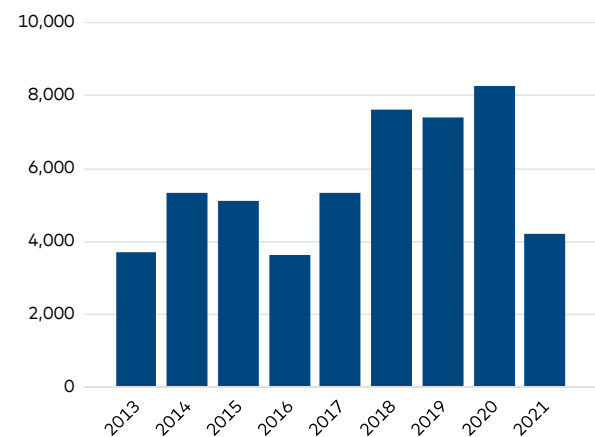
## SUPPLY

- ▶ Minneapolis-St. Paul had 19,886 units under construction as of July, with 83% of them geared toward high-income residents. The metro had an additional 46,856 units in the planning and permitting stages.
- ▶ Coming on the heels of last year's total deliveries of 8,271 units—which marked a cycle peak—developers completed 4,232 units in Minneapolis-St. Paul this year through July. Since 2013, more than 50,000 units have come online throughout the metro and the delivery pace is not expected to slow down. Yardi Matrix anticipates that developers will add 8,355 units to the metro's stock this year, which would mark a new decade high.
- ▶ The level of deliveries pushed the occupancy rate in stabilized Twin Cities urban assets from 95.1% in June 2020 to 94.2% in June 2021. In suburban areas, however, occupancy increased from 96.5% to 96.8% during the same period, fueled by renters' quest for more affordable alternatives in less dense areas.
- ▶ However, construction activity in the metro is cooling off. In the first seven months of the year, developers broke ground on only 5,082

units, below the 7,220 units recorded during the same time frame last year.

- ▶ The St. Paul-Highland submarket leads the pipeline by far, due to Ryan Cos.' 3,800-unit Highland Bridge project. The community is part of a \$1 billion mixed-use redevelopment of the 122-acre Ford Motor Co. plant.

**Twin Cities Completions** (as of July 2021)



Source: Yardi Matrix

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

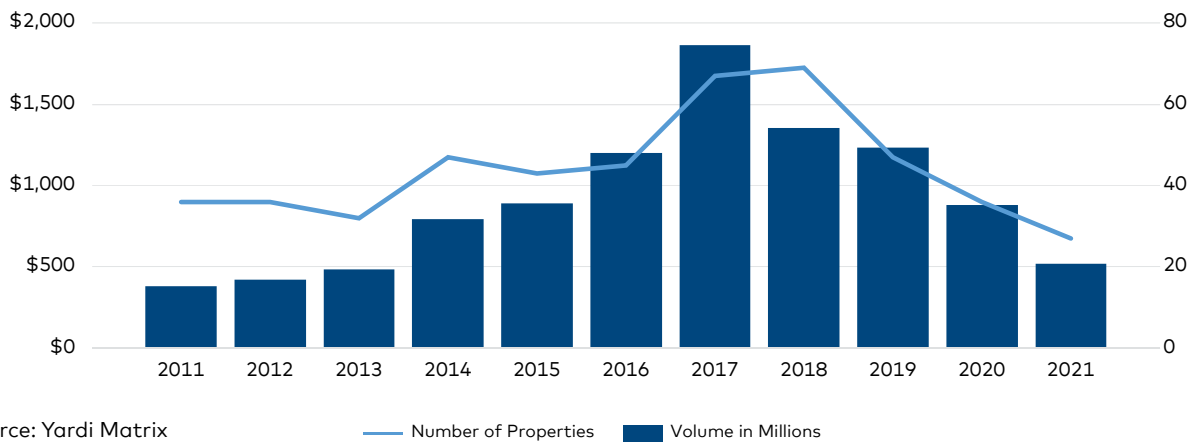


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Twin Cities multifamily sales reached \$522 million in the first seven months of the year, a 31% increase compared to the same period in 2020, when the health crisis pushed many investors to the sidelines. Between 2016 and 2019, transaction volume averaged \$1.4 billion per year.
- ▶ Investors primarily favored Renter-by-Necessity communities, with 16 of the 27 assets that traded year-to-date through July catering to the workforce segment. For the first seven months of 2021, the average per-unit price stood at \$174,767, in line with the U.S. average.
- ▶ Urban Twin Cities accounted for two-thirds of the \$1 billion investment volume for the 12 months ending in July. St. Louis Park (\$138 million) and Minneapolis-University (\$118 million) topped the list. Peak Capital Partners' \$44.8 million purchase of the 172-unit Hello in Golden Valley, Minn., from Continental Property Group was the largest deal of the second quarter.

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



Source: Yardi Matrix

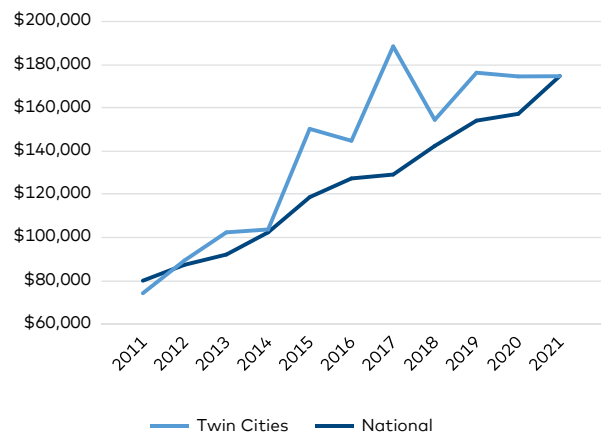
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
St. Louis Park	138
Minneapolis-University	118
Shakopee	84
Oakdale-South	80
New Hope/Crystal	63
Minneapolis-Calhoun Isle	60
Woodbury/Cottage Grove	58

Source: Yardi Matrix

<sup>1</sup> From August 2020 to July 2021

### Twin Cities vs. National Sales Price per Unit



Source: Yardi Matrix



## Excellent Service Is Multifamily's New Must-Have Amenity

By Evelyn Josza

The pandemic-induced anxiety, coupled with civil unrest, put pressure on the Minneapolis-St. Paul multifamily market in the past year, urging industry players to recalibrate their business and marketing strategies. Bigos Management Senior Director of Property Operations David Keinert discusses the pandemic's transforming effect on people's housing choices and talks about what works best in attracting and retaining renters in the Twin Cities area.

*How would you describe Twin Cities' multifamily market before the pandemic? How do you see it now?*

Before the pandemic, it seemed that a construction project was just about in every neighborhood you looked. When the pandemic hit, along with the civil unrest surrounding the murder of George Floyd, you could certainly see some hesitancy in the market, especially in the urban core.

While we certainly have seen renewed interest in suburban markets as of late, there is no shortage of development in Minneapolis and St. Paul proper. With multifamily looking to be a stronger investment than hotels, office space and retail for years to come, I think we will continue to see a lot of excitement in our multifamily market here.

*Which Twin Cities submarkets/neighborhoods fared better over the past 12 months?*

With over 50 properties in the Twin Cities, we have a great pulse



of the market. Both Downtown Minneapolis and St. Paul were hit hard with closing offices, restaurants and entertainment venues. This, coupled with the civil unrest in the Twin Cities, was the perfect storm to cause urban renters to look elsewhere.

The Twin Cities have some really great suburban markets like Edina, Maple Grove and St. Louis Park that offer just as much in dining and entertainment compared to their urban counterparts.

*What changes you have implemented?*

The prospect was speaking, and we had to listen! Things that

were on the marketing wish list, like recorded video tours, live video tours, 3D walk-throughs and self-guided tours, became very important. Our approach to touring was perhaps one of the most significant changes we implemented.

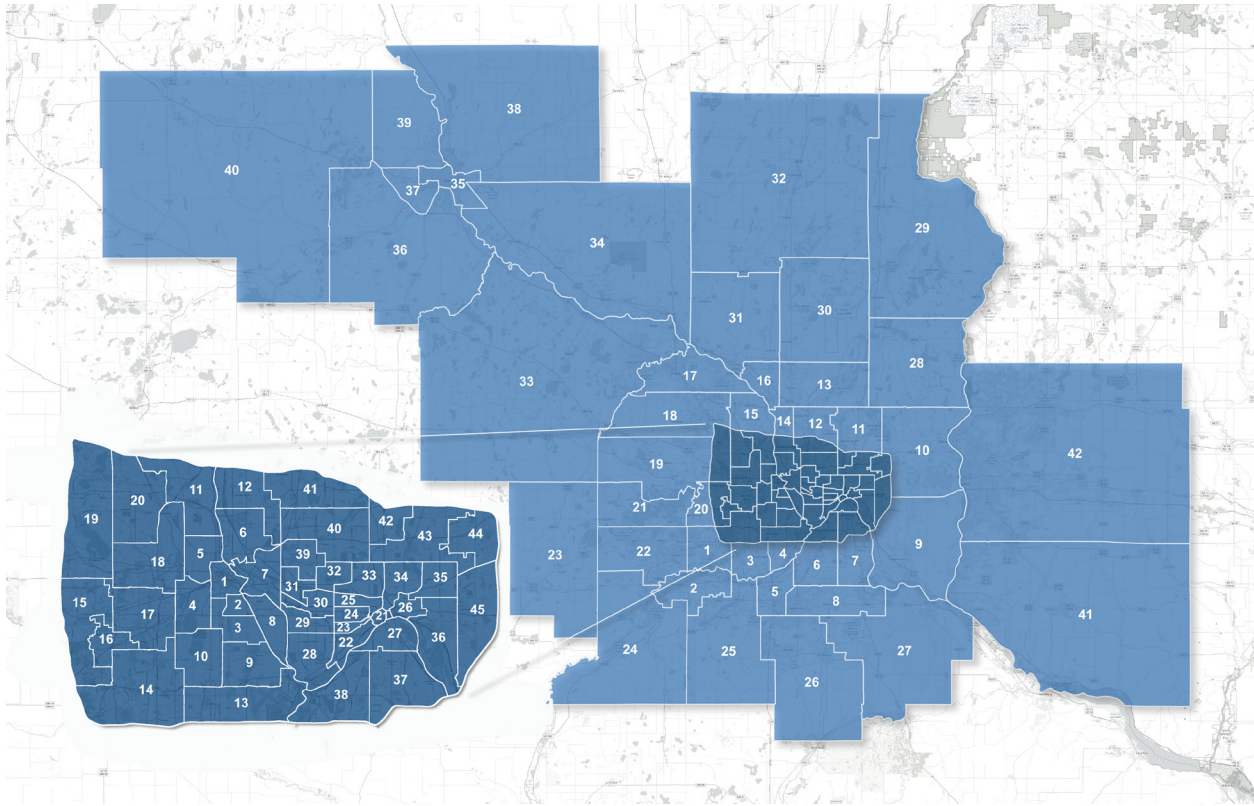
*What are some of the key amenities an apartment community shouldn't lack in 2021?*

The interesting thing is that the pandemic essentially took away all of our amenities during our state-imposed lockdowns. We were left with selling four walls and a roof to our prospects. I really think the properties with a top-notch team outperformed the rest.

So for 2021 my must-have amenity is excellent service. It really sets communities apart. Prospects and residents will forget your fitness room, but they won't forget how you made them feel.

*(Read the complete interview on [multihousingnews.com](http://multihousingnews.com).)*

# 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	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 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.

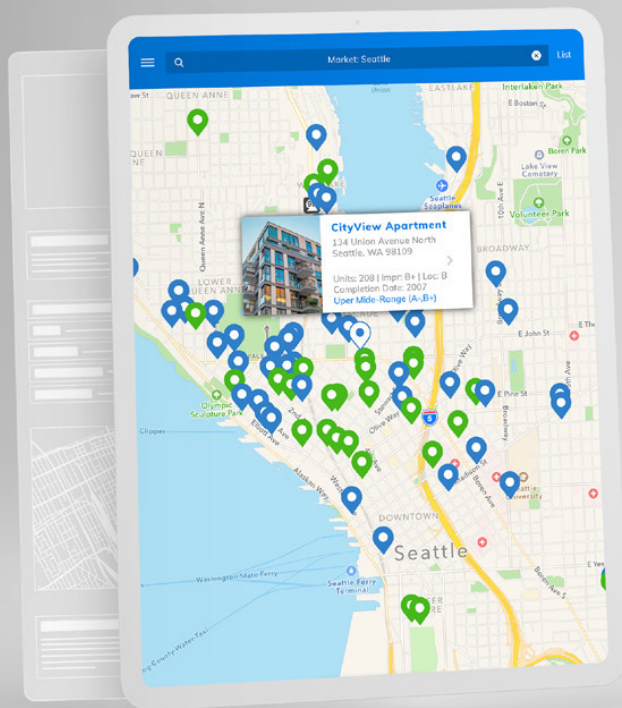
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.



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